The ESG awareness gap:
What's stopping UK investors from putting their money where their values are?

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07 Op Opinium

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Foreword

ESG investing has been in the press a lot over the past year–and not always for positive reasons. On the other side of the pond, members of the Republican Party in the United States recently mounted an attack on the investment strategy, terming it "woke capitalism".[1] High-profile accusations of "greenwashing" by major financial institutions have made headlines.[2,3] And controversy surrounding oil and tobacco companies scoring highly on the S&P's ESG index has left some wondering whether the acronym means anything at all.[4]

The sector has also been battered by market turmoil and rising inflation, which has prompted some investors to pull out of ESG investments altogether. Indeed, May 2023 was the worst month on record for withdrawals from ESG funds–with investors pulling more than £300 million.[5] This comes off the back of a rough year, as 2022 saw investors pull more money out of ESG funds than they added for the first time in a decade.[6]

The prevailing narrative to explain this trend is that when times are tough, investors will prioritise returns over their values. While several cornerstone studies have demonstrated that ESG performance is correlated with higher returns,[7] conflicting analyses have dented the sector's reputation.[8,9]

Seeing blood in the water, so-called "anti-ESG" funds have started cropping up, seeking to fuel the controversy–and pick up spooked investors.[10]

Despite the recent challenges, ESG investing remains a significant part of the finance sector. ESG funds manage nearly $2.7 trillion in assets.[11]

Only one quarter of global sustainable assets under management are held by retail investors, with institutional investors making up the rest.[12] This is despite the fact that retail investors hold approximately half of **all** global assets under management—a figure that is set to rise over the coming years.[13]

To increase the amount of sustainable assets under management, more retail investors will need to be convinced that prioritising ESG is a smart bet in a difficult investment environment.

We conducted this research to understand how asset managers can approach this task, looking at UK retail investors' perceptions of ESG and key factors impacting their investment decisions. We also assessed the dizzying array of terminology used to describe ESG investments, identifying nuances in how this language is perceived.

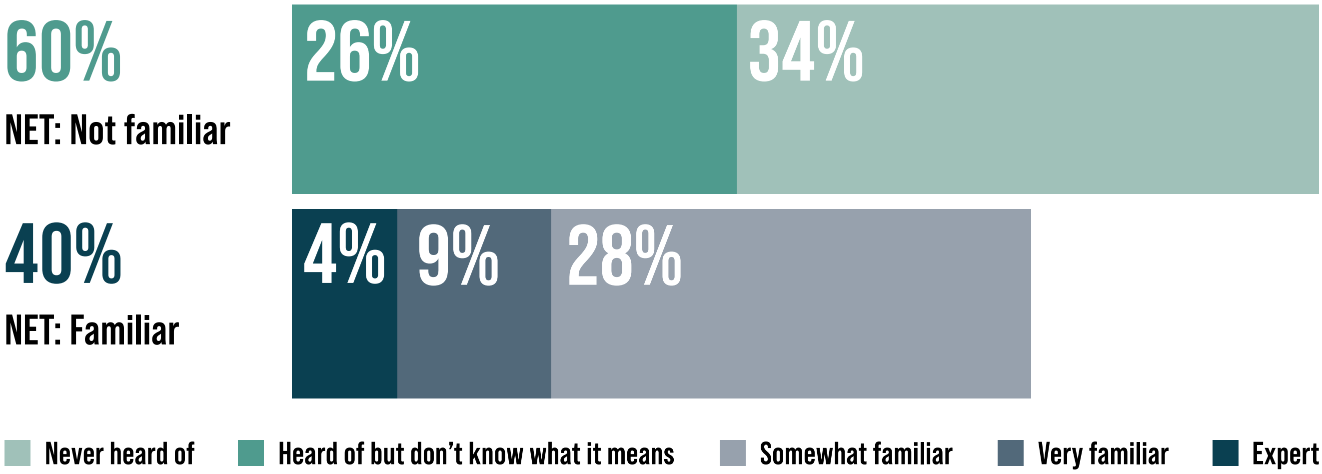
Some of the results surprised us. We hope this report will help spark a conversation about how the sector can get back on the front foot, engaging proactively with retail investors to address concerns and tap into their underlying desire to put their money where their values are.

Eva Barboni
Founder & CEO,
Atalanta

The awareness gap

The term ESG was coined nearly two decades ago, when a report commissioned by the United Nations called on the financial sector to integrate "environmental, social, and governance" factors into their investment research and decisions.[14] The report was endorsed by big names in the sector, and it sparked a global conversation about how to create better investment markets that could help support more sustainable societies.

Indicate how familiar you are with ESG Investing?



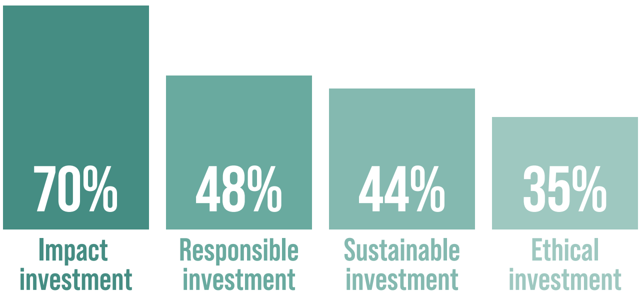
However, it took a while to gain traction. From 2005 to 2018, "ESG" came up in less than 1 percent of earnings calls.[15] The pandemic changed that. As the world came to a halt and social safety nets frayed, interest rebounded in developing systems and markets that prioritise people and planet alongside economic returns. Consumers' purchasing behaviours changed as well, with many prioritising sustainability despite the economic downturn.[16]

Companies followed suit. By May 2021, ESG was mentioned in nearly one in five earnings calls.[17] Investments in ESG funds surged as well, with assets under management growing by 53 percent that year.

In this context, it is perhaps surprising that most retail investors still have no idea what ESG means. Our survey of 1,000 UK retail investors showed that 60 percent were not familiar with ESG investing–and more than a third had never even heard of it.[18]

When we probed further into the dizzying array of terms that are often used interchangeably to describe ESG investing, further confusion emerged.[19] Investors were least familiar with the term "impact investment", with 70 percent either never having heard of it before or not knowing what it means. This was followed by "responsible investment" (48 percent), "sustainable investment" (44 percent), and "ethical investment" (35 percent), which all fared slightly better than "ESG investment" in terms of familiarity.

How familiar are you with each of the following types of investments? NET: Not familiar



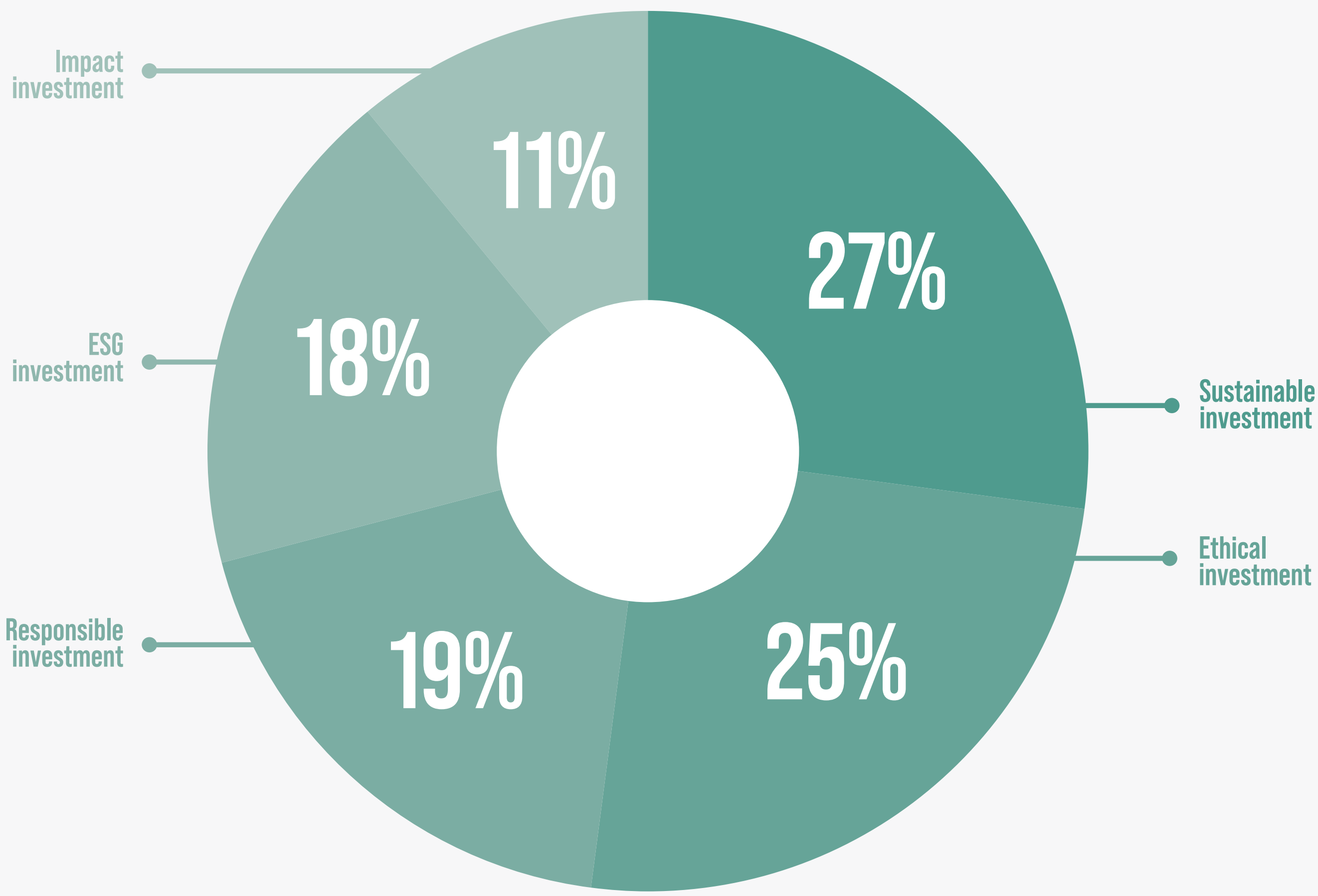
The ESG awareness gap

While experts in the sector would rightly argue that some of these terms have distinct meanings,[20] that nuance is lost when you get down to the individual investor level. The end result is that these terms have turned into confusing and interchangeable jargon for the majority of retail investors.

That said, some terms seem to be cutting through more than others. When we asked which type of investing they considered to be most impactful, "sustainable" and "ethical" investing came out on top, with "responsible", "ESG", and "impact" investing lagging behind.[21]

If the industry is going to make headway with retail investors, encouraging them to put their money behind funds that drive social and environmental good, investing in awareness-raising, and using consistent messaging will be key.

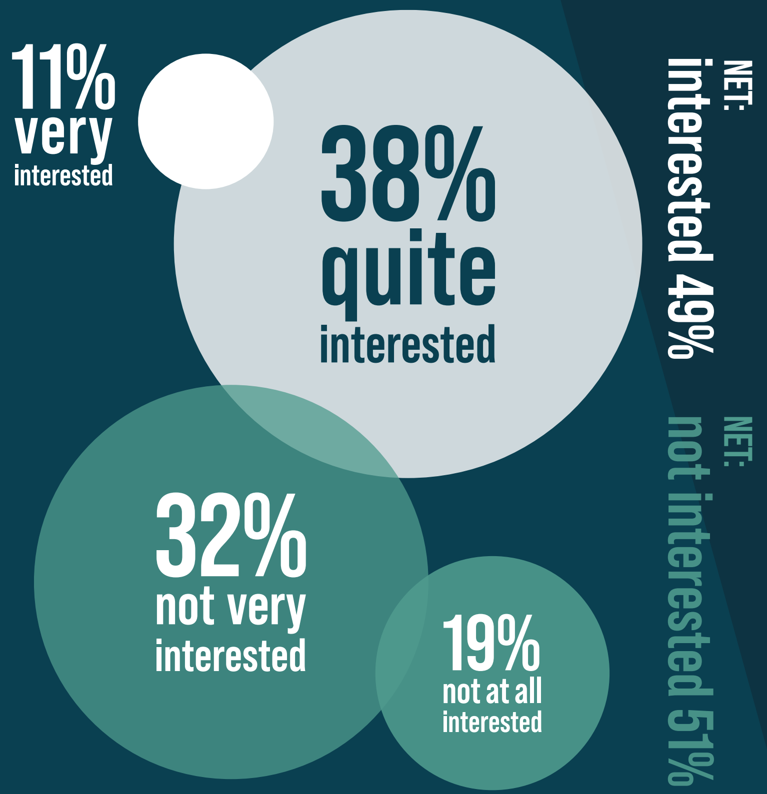
Which of the following types of investing do you consider most impactful?



A strong level of interest

Despite their lack of awareness and understanding of the term, the investors we surveyed still have a strong interest in ESG investment. Of those who have not yet invested in ESG, nearly half (49 percent) said they are interested in doing so in the near future.

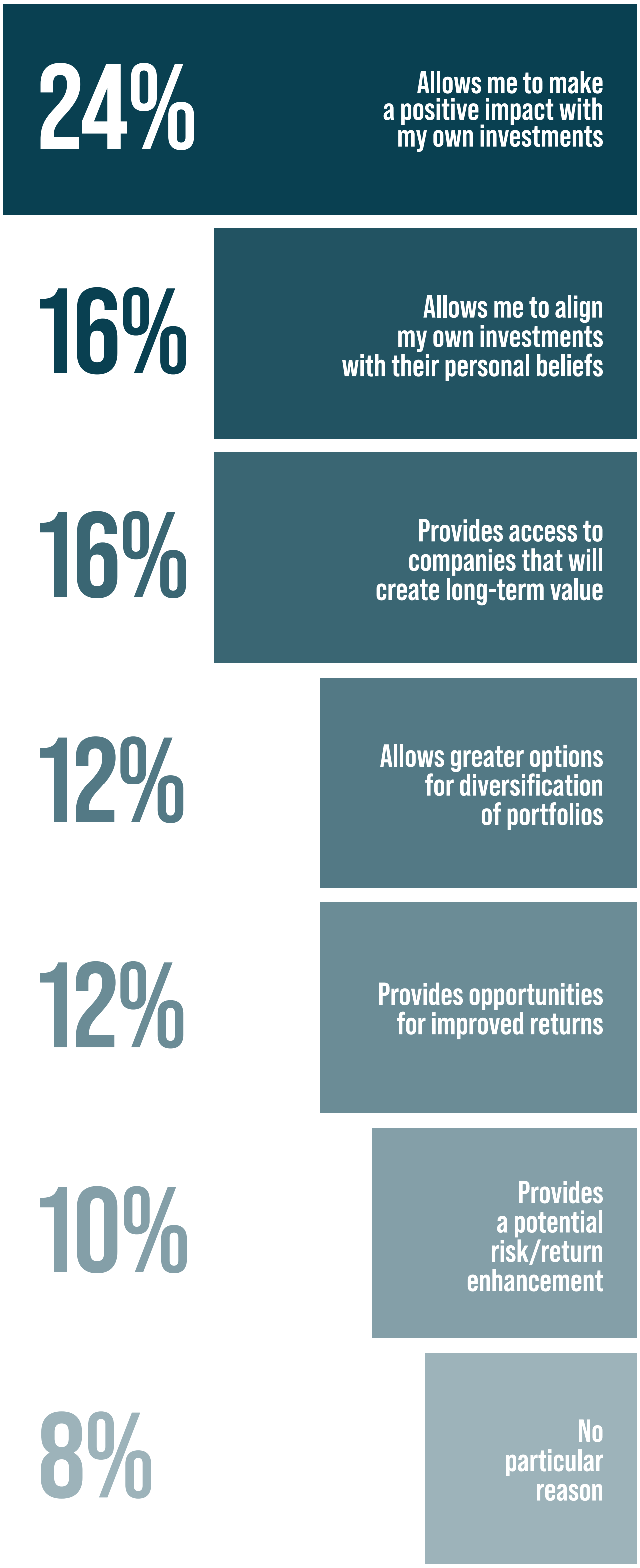
How interested are you in investing in ESG in the near future?



Of particular interest to asset managers, the survey showed that future interest in ESG is likely to translate into an increase of flows into ESG funds. Two in five investors (40 percent) predict that the amount of money they allocate to ESG investments will increase in the next year compared to today. That figure rises to nearly one in two investors (48 percent) when looking at the next five years.

This strong interest is motivated by several key factors. Investors surveyed said that their top motivation for ESG investing is a desire to make a positive impact (24 percent). Other motivations included aligning investments with investors' personal beliefs and providing access to companies that will create long-term value (16 percent each).

What is the main reason you are invested in ESG?



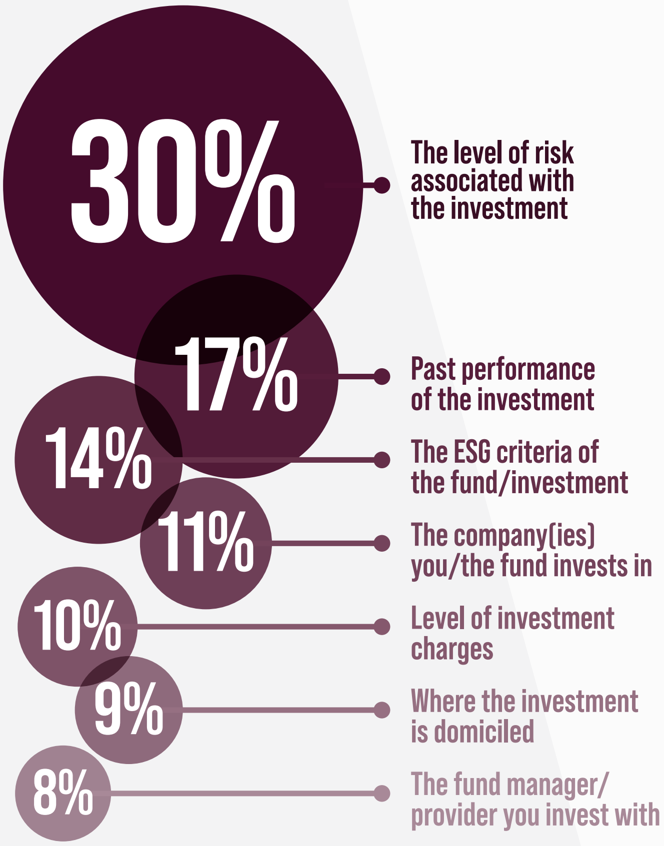
All figures have been rounded to the nearest %

A top factor in investment decision-making

This strong interest and motivation in turn impact the criteria that investors are using to make decisions.

Of the investors we surveyed, 30 percent said that risk was the top criterion impacting their investment decisions; this was followed by 17 percent who cited past performance. Interestingly, this was followed closely by ESG criteria, which 14 percent said was their top consideration. Given the challenging investment climate, it is notable that more than one in seven investors still put ESG considerations first.

% of respondents who ranked each statement first in terms of importance when choosing to make an investment.



All figures have been rounded to the nearest %

E, S, or G?

When it comes to the aspects of ESG that investors find most appealing, the waters get a bit muddy—perhaps because they lack a nuanced understanding of what ESG means.

Three out of five investors we surveyed (57 percent) said that the environmental aspect of ESG investing is most important to them, while a quarter (24 percent) value the social aspect, and a fifth (19 percent) believe the governance matters most.

At first glance, these figures signal that investors are most interested in the environmental impact of ESG. However, as part of the research, we asked participants to share the specific ESG-related issues that were particularly important to them. In doing so, we were able to identify the factors that were most important to them when considering an investment fund.

While current ESG investors and those interested in ESG cited climate change and carbon emissions as the most important issues, when looking at the broader landscape of investors, healthcare, education, and housing actually came out on top.

This could indicate an opportunity for asset managers to attract more interest in ESG funds by highlighting social issues, which often take a back seat to discussions about environmental sustainability.

Which aspect of ESG is particularly important to you?

	Total	ESG investors	Those interested in ESG
1	Healthcare, education, and housing	Climate change and carbon emissions	Climate change and carbon emissions
2	Climate change and carbon emissions	Healthcare, education, and housing	Human rights
3	Human rights	Human rights	Renewable energy

Differences in ESG awareness, interest, and priorities based on gender

Our survey also found some notable differences in how men and women perceive ESG investing—and their priorities when making investment decisions.

Awareness

We found that awareness of ESG investing among women investors is particularly low. Compared to 53 percent of men, 66 percent of the women investors we surveyed said they were not familiar with ESG investing.

Interest

But that does not mean they are less interested. Of the women we surveyed, 55 percent reported that they are interested in investing in ESG in the near future, compared to 45 percent of men. Women were also significantly more likely than men (63 percent vs. 49 percent) to say that they **only** want to invest in companies that perform well in ESG issues.

Women were also more likely than men to list ESG criteria as their top consideration when choosing to invest (17 percent vs. 11 percent), and they have a higher proportion of their investment portfolio in ESG investments (25 percent vs. 19 percent).[22]

Priorities

Women investors' decision-making factors also differ from men's. Firstly, women familiar with ESG are more likely to place more relevance on ESG in their investment decision-making compared to men overall (65 percent vs. 57 percent).

Men and women also differ when it comes to their prioritisation of inclusionary investing (investing in companies that support their values) versus exclusionary investing (**not** investing in companies that don't). While men place equal importance on these two strategies (50 percent each), women show a strong preference for inclusionary investing (66 percent vs. 34 percent).

Finally, women are more likely than men to prioritise ESG rating benchmarks when selecting ESG funds to invest in (41 percent vs 33 percent).

Choosing between funds and deciding how much to allocate

Once investors decide to put part of their portfolio into ESG, choosing between ESG funds is another hurdle. This hasn't been helped by recent, high-profile accusations of "greenwashing" levelled against ESG funds. For example, Morningstar stripped more than 1,000 funds of their "sustainable" status after finding that their ESG criteria fell short.[23]

In this context, it is unsurprising that investors are seeking out ESG rating benchmarks when choosing which funds to invest in; benchmarks were ranked as one of the top three factors for the investors we surveyed (37 percent). This came just behind past performance and the reputation of the investment provider (42 percent each).

What criteria did you use decide which ESG funds to invest in? Please select the three most important.

42%
The past performance of the fund

42%
The reputation of the investment provider

37%
ESG rating benchmarks

36%
Whether the impact/positive aims of the fund are aligned with my own goals

34%
The level of investment charges (account/fund/transaction)

23%
Ease of setting up an account/transferring funds

Which of the following do you think would encourage you to start or increase your allocation to ESG investments over the next five years? Please select up to three options.

The biggest motivator when it comes to encouraging increased allocations to ESG investments over the next five years is good performance track record for ESG investments (28 percent), followed by lower fees (24 percent), and evidence that ESG investing has an impact (22 percent).

What asset managers can do

Recent outflows from ESG funds have served as a wake-up call for the sector, and the pressure is on for asset managers to act—or risk getting left behind.

The expectations amongst retail investors are high; our survey found that seven in ten (71 percent) expect all investment funds to become more sustainable in the future. In order to live up to these expectations, asset managers should focus on five key priorities.

1 Double down on awareness-raising

As our research revealed, there is a need to address low levels of awareness about ESG amongst both current and potential retail investors. A more proactive approach to communications is required to ensure that retail investors know about the products available to them.

2 Simplify and demystify language

The complicated array of terminology and jargon used in the field hasn't helped. Aligning around clear language will be critical for addressing knowledge and awareness gaps amongst investors.

3 Consider gender differences in investment behaviours

Our research makes clear that men and women have different levels of awareness, interest, and priorities when it comes to ESG investing. Engagement strategies should keep this in mind.

4 Align on rating benchmarks

Particularly in light of recent controversies, aligning around rating benchmarks will be critical for (re)building trust. The proliferation of ESG ratings and lack of standardisation in scoring criteria have created significant confusion even amongst seasoned professionals–let alone retail investors.[24] Ongoing discussions about regulating ESG rating providers and avoiding potential conflicts of interest could have a big impact on investor confidence.[25]

5 Focus on performance, reputation, and impact

There are strict regulations about how asset managers can talk about performance, but the ability to demonstrate returns will be critical for both retaining current investors and attracting new ones. A bigger focus on building reputation and demonstrating the tangible impact of funds through communications and stakeholder engagement will also be key.

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About

ATALANTA

Atalanta is a strategic communications and global public affairs agency focused on delivering lasting impact on issues that matter for people and the planet.

The world is changing—fast. From volatile geopolitical dynamics to urgent environmental and social challenges, organisations are finding the context in which they operate shifting at a rapid pace.

Across the public, private, and third sectors, many organisations are responding to these shifts with ambitious goals to drive change. We help them navigate complex global communications and stakeholder landscapes to deliver lasting impact on the issues that matter.

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Opinium is an award-winning strategic insight agency built on the belief that in a world of uncertainty and complexity, success depends on the ability to stay on pulse of what people think, feel, and do.

We work with organisations to define and overcome strategic challenges – helping them to get to grips with the world in which their brands operate.

We use the right approach and methodology to deliver robust insights, strategic counsel and targeted recommendations that generate change and positive outcomes.

Methodology:

Opinium conducted an online quantitative survey of 1,000 UK retail investors holding a minimum of £5,000 in financial assets including Stock and Shares (ISAs), SIPPS and General Investment accounts. Fieldwork was conducted from 13 -17 February 2023.

This was supplemented by additional questions included in an Opinium Omnibus online survey of 2,000 UK adults, who were screened for those with investment products. The survey was carried out from 19 - 23 May 2023.

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