Act ESG

Vontobel

Wealth Management

Drive positive change with ESG

September 2019

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Dear readers,

Since the 1990s, Vontobel has been an advocate of value-oriented, long-term action and investing.

In the meantime, the pioneering work of a few individual companies in the area of sustainability has given rise to a proper “ESG industry.” The abbreviation ESG stands for the use of “Environmental, Social and Governance” factors in the assessment of companies – or entire countries – in terms of their contribution to sustainability.

Until now, demand for such investment opportunities has mainly come from professional and institutional investors. Most private investors, however, are still relatively reticent when it comes to sustainable investing. But as our study shows, the reason for this reluctance is not because of their lack of conviction. On the contrary, more and more investors are demanding that their investments be coupled with the knowledge that they are making a positive contribution to environmental and social progress, and that they have greater transparency about what their money is financing. Instead, what is lacking is information about what an ESG approach means and can achieve in practice.

The fact that investors play a decisive role when it comes to achieving socially relevant goals has also been recognized by the European Union. Through a variety of measures, it is aiming to create incentives that, among other things, will increase investment in innovative and climate-friendly technologies. These steps will also change the way financial institutions provide advisory services. In the future, you as an investor will be asked if, and in which context, you would like to consider ESG criteria in your portfolio, so that a proposal can be submitted to you that is in line with your sustainability requirements.

It is true that sustainable investing, when taking an ESG approach, does necessitate a certain extra effort. Additional information needs to be assembled and conveyed to the investor, who then needs to process it. But we see this as a desirable development. Both you, as an individual, and society as a whole benefit from sustainable investing. It facilitates the reduction of environmental, social and governance risks, and can achieve a positive environmental and social impact.

With this study, we are pleased to present you with a condensed overview of the issues and ideas that are currently occupying investors when it comes to sustainable investing.

I wish you a stimulating read.

Lars Kalbreier
Chief Investment Officer, Bank Vontobel AG, Wealth Management

Introduction

Socially responsible investment is no longer a niche issue. Demand for the incorporation of environmental, social and governance (ESG) factors into investment processes and decision-making is increasing. The UN-backed Principles for Responsible Investment, launched more than a decade ago, are now a thriving global project boasting more than 2,300 members who collectively account for $85 trillion in assets under management[1].

Nevertheless, while professional and institutional investors are embracing ESG, the number of retail savers actively taking steps to do so remains relatively low, though many are enthusiastic about the idea of "doing well by doing good." Moreover, attitudes about ESG investing among financial intermediaries such as wealth managers, banks and independent financial advisers, have been lukewarm.

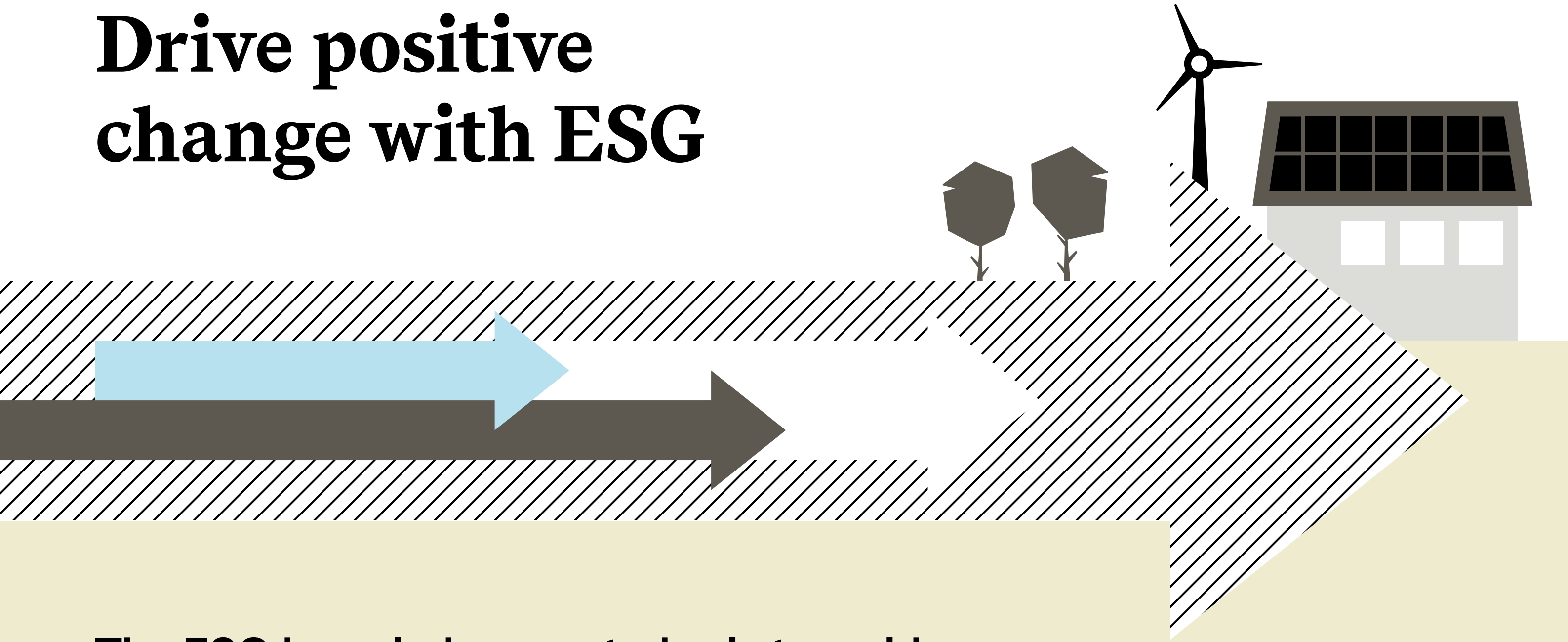
This research sets out to examine why, in an era of increasing engagement with ESG issues, ranging from the #metoo movement to combating climate change, take-up rates for responsible investment strategies among private investors are still only slowly rising. How can savers and investors harness the power of their financial decision-making to push for positive action on the issues that concern them most?

The problem, according to our survey of more than 4,600 consumers in 14 different markets, is that individual savers and investors feel poorly informed about what an ESG approach would mean in practice. Significant numbers have little understanding of what is possible. Many feel let down by the lack of information and support provided for ESG by intermediaries and the broader financial services industry.

Remedying this problem must now be a priority. The evidence of this research is not only that savers and investors are badly in need of more extensive and incisive information on ESG, but also that they will reward those intermediaries and providers who offer it. By the same token, those unable to meet this challenge risk losing their clients.

[1] Source: unpri.org

Drive positive change with ESG



The ESG knowledge gap today is too wide…

59 %
of respondents do not know an ESG approach to saving and investment is even possible

47 %
complain their intermediaries are not giving them enough information about ESG

49 %
feel let down by their intermediaries' lack of support and advice on ESG

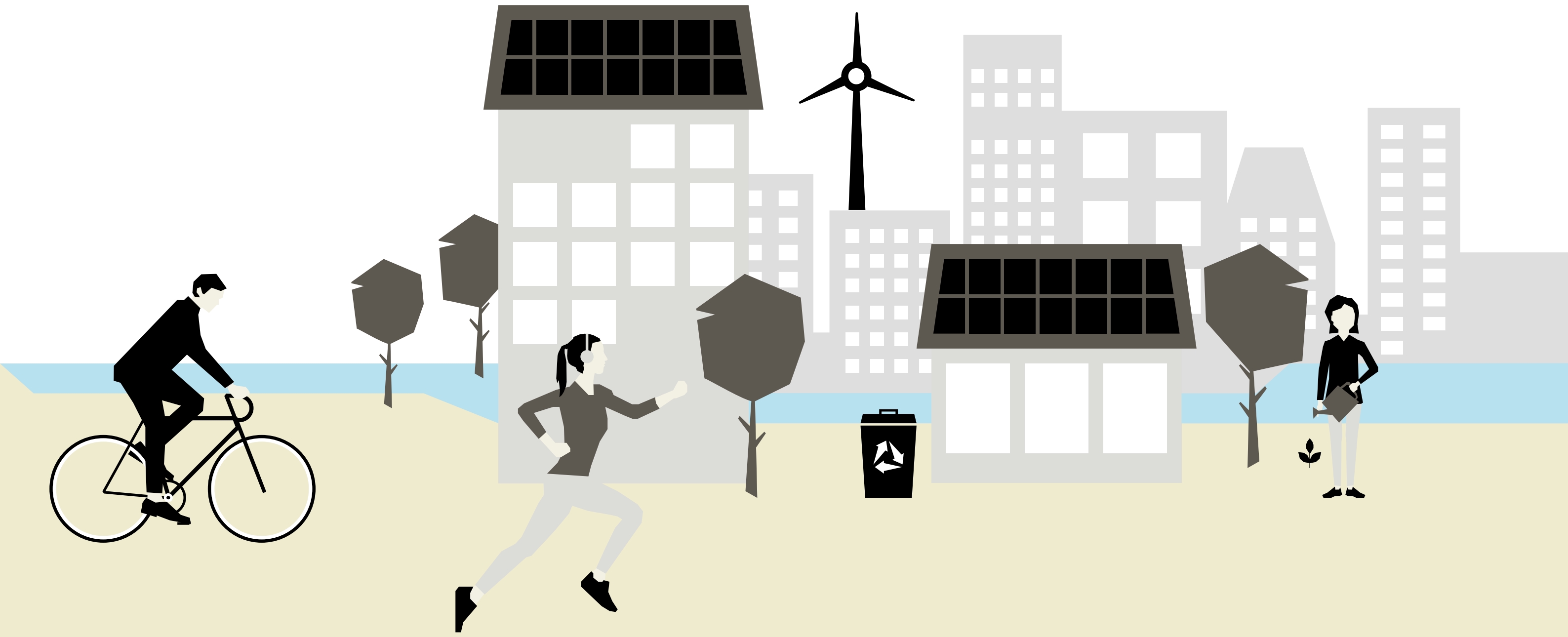
…so for now, ESG remains a minority activity…

ESG approaches account for **31 %** of the wealth of those who have made allocations

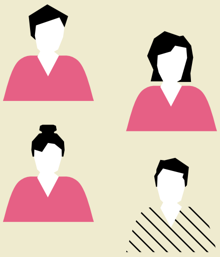
29 %
have made savings and investment decisions according to ESG principles

17 %
have been offered an ESG opportunity by their intermediary

Sources: Vontobel original research, March – April 2019, based on survey of 4,643 consumers in 14 markets in Europe, North America, and South America



…but more people than ever want an ESG approach…



73 %
believe businesses have a duty to behave more ethically

65 %
believe ethical businesses will deliver better investment returns

47 %
of a notional $ 100,000 portfolio is the amount respondents say they would invest according to ESG principles

…and they are looking to intermediaries for ESG support

39 % of respondents

say an intermediary's advice on ESG opportunities would be a critical influence on their behavior

46 % of respondents

would be more likely to choose an intermediary able to support their ESG ambitions

45 % of respondents

would switch out of savings and investments if their money was allocated to activities they disagree with

Part 1: The knowledge gap revealed

This research reveals a striking knowledge gap when it comes to ESG investment. More than half our sample (59 %) say they have never heard of an ESG approach to savings and investment. Among respondents with accessible wealth below $ 100,000, this rises to 61 %. The wealthiest cohort is more knowledgeable, but a still sizeable (33 %) has never heard of ESG, while a further 35 % say they know very little about it.

It's also important to stress that the picture of ESG take-up varies considerably from country to country – and not in a predictable way. In Norway and the UK, two countries often thought of as at the vanguard of socially responsible investment, respondents are less likely than anywhere else to say they have invested with an ESG approach in mind.

This is a reflection of awareness. In the UK and Norway, respondents are much more likely to say they know nothing about ESG investment – 61 % and 75 % respectively have never heard of it. This number drops to only 46 % in Brazil, 47 % in Italy and 52 % in the Netherlands, the three countries in which take-up is highest.

Why the knowledge gap exists

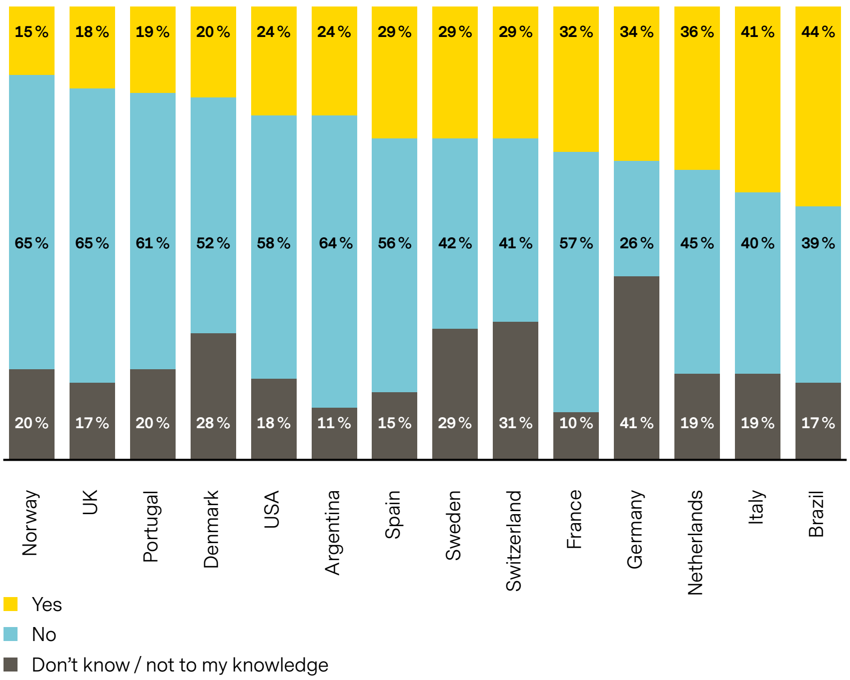
One problem may be language says Erich Stadlberger, Manager of the Private Banking and Asset Management Division at Austria's Oberbank, because there is currently too much confusing terminology in the marketplace. "'Sustainability' is a word with which people are more familiar," he says. "'ESG' is a term used by experts that few people on the street could place."

65 %

of consumers in Norway and UK know nothing about ESG investment

Chart 1: The regional view

Allocated investments to ESG



What ESG investment approaches are available today?
There is a wide range of confusing terminology when it comes to ESG today. To avoid confusion, we have defined six categories that we at Vontobel use to describe ESG investments:

DEFINITION	EXAMPLE AND IMPLICATIONS
Exclusion	
Filtering out undesirable companies or sectors, either based on convictions or on international standards, also known as "norms-based screening." Typically reduces the investment universe at the start of the investment process by removing companies with low ESG scores.	Portfolio excludes companies focused on areas such as armaments or extractive industries to align investments with client convictions. Results in a portfolio of companies that meet ESG minimum standards, but with weightings driven by other factors.
Best-in-class	
Only invests in companies with excellent ESG performance relative to others in their sector, typically by conducting best-in-class screening as the first step of the investment process, often based on external database information.	Portfolio invested in companies with best ESG scores in their sector, rather than moderate ESG performers with other attractive characteristics. Results in a portfolio with additional tracking error due to name-level exclusions. Note that this approach does not exclude segments altogether, e.g. fossil fuels.
Integration	
Includes ESG as a fully integrated element of the investment process, with ESG scorings combined with other factors to support investment decision making, often using a proprietary ESG methodology.	Portfolio invests in the companies with the best blend of ESG and other characteristics. Does not limit the investment universe, but challenging to set up as it requires a purpose-built investment process and portfolio management staff able to conduct ESG alongside other types of investment analysis.
Thematic	
Investment focused on opportunities related to a single theme or megatrend.	Portfolio invested in companies likely to benefit from a disruptive megatrend such as the shift toward cleaner energy. Results in a concentrated portfolio that should perform if the trend develops as expected.
Impact investing	
Investing in activities with a positive impact on the environment or society.	Portfolio focused on one or more areas such as microfinance, renewable energy infrastructure or agricultural development to "do good." Doing good, rather than investment performance, is the main focus.
Engagement	
Investors aim to influence company management to improve business practices.	A wide range of engagement levels exist, ranging from proxy voting to public engagement as practiced by prominent activist funds. May be practiced alongside other equity investment approaches above.

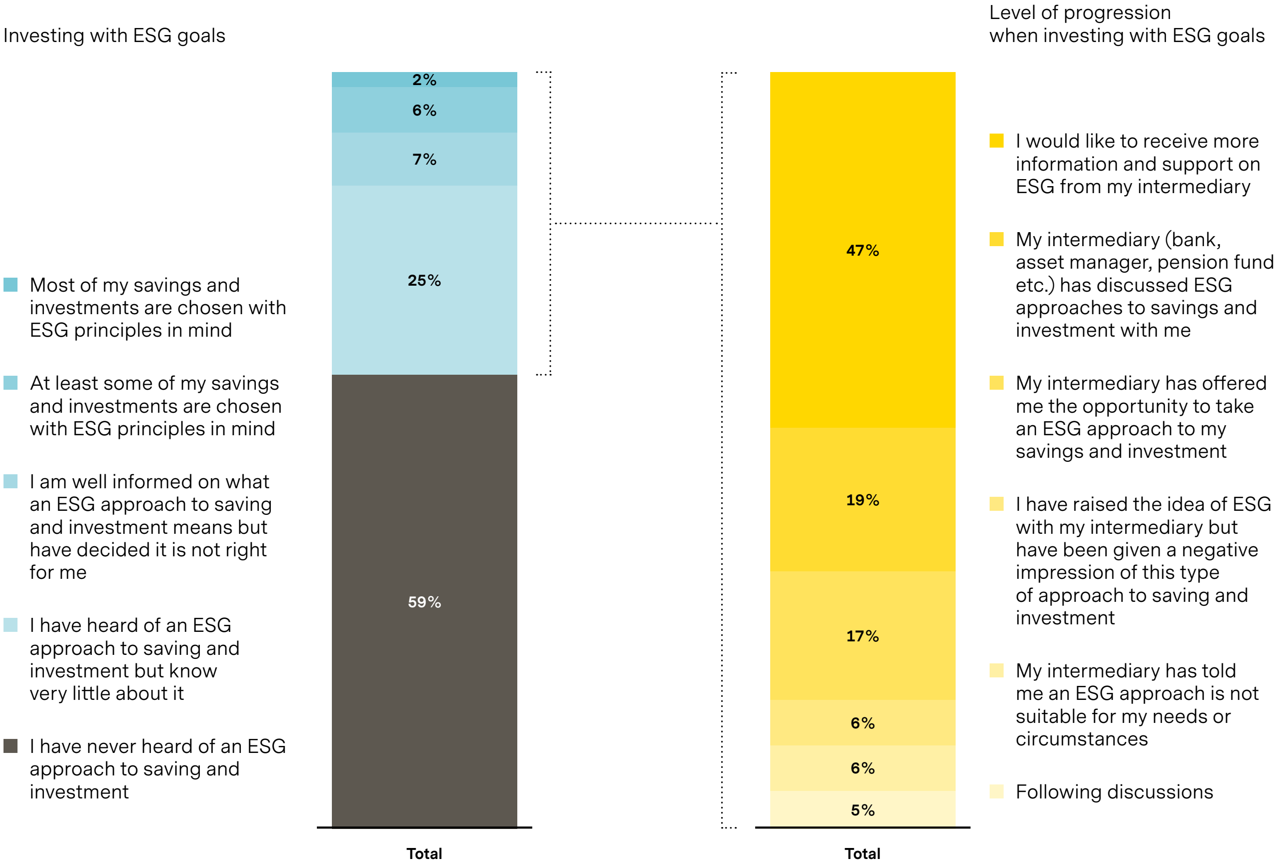
Also, too few intermediaries are currently helping to cut through the jargon. Almost half of respondents (47%) would like to hear more about ESG from their intermediaries. Only 19% have ever discussed ESG approaches with their intermediary, while only 17% have been offered opportunities to save and invest this way. Even among respondents who have more than $100,000 of accessible wealth, these figures are barely any higher.

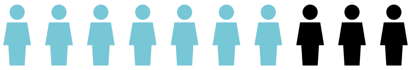
Philipp Achenbach, an ESG specialist at the German investment adviser TauRes, says this is disappointing. "Intermediaries who do talk about sustainable investment are perceived more positively," he argues. "What I wish for is that intermediaries would understand that it makes strategic sense to give clients the opportunity to move within their ethical and moral views, even if the intermediaries do not have strong convictions of their own."

Thomas Trsan, ESG & Impact Investing Specialist at Vontobel Wealth Management, points out that client sentiment is changing. "Private clients are still focused primarily on financial returns, but we see an increasing number who want their portfolios also to be based on their values," he says. "That will only increase as you see social media promoting these approaches more and more."

Chart 2: In need of more support

Financial decision-making





69%

of wealthier clients want more information

How intermediaries can help

Right now, comparatively few people are getting professional help when making financial decisions. More than half of respondents (55%) say they make all their own decisions – even among more wealthy investors, the figure is 47%. Only 18% of respondents with accessible wealth of more than $100,000 currently pay an adviser for support, although another 20% have an adviser who manages most of their money.

Intermediaries will therefore need to find ways to break down the barriers preventing more people from accessing information about ESG investment. Technology, for example, may have a role to play: one possibility is to exploit the growing number of apps that cluster investors according to their ethical views as well as their financial needs and recommend lower-cost, standardized solutions.

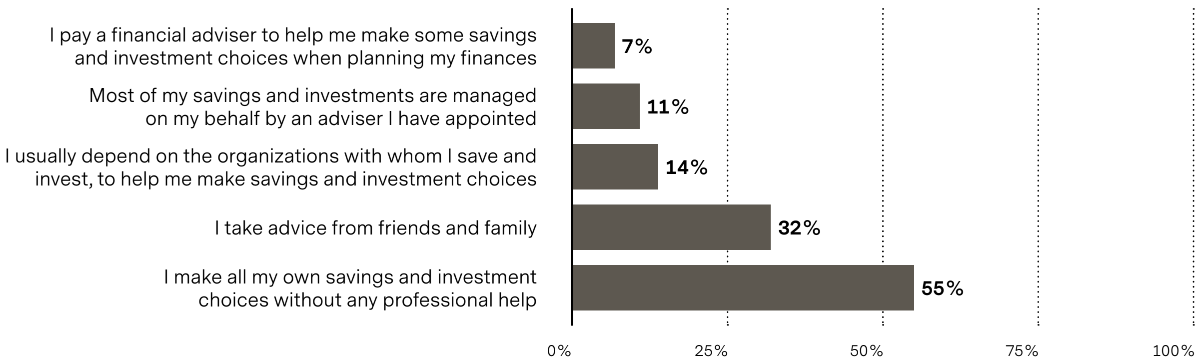
In fact, there is now a significant opportunity for intermediaries to use their ESG expertise to attract and retain new clients. This survey charts very significant demand for additional information about ESG approaches – 64% of all respondents want more – as well as widespread frustration about the failure of intermediaries to meet this need. Almost half of respondents (49%) say intermediaries are serving clients poorly in this regard, while 35% complain that their appetite to invest this way is being inhibited by intermediaries' lack of ability to help.

Intermediaries' and product providers' countries where awareness is low have a particular opportunity. In the UK, two-thirds of respondents (66%) say they are not currently receiving enough information about ESG approaches to investment, compared to only 57% in the Netherlands. In Norway, just 7% of respondents say their intermediaries have discussed ESG issues with them, compared to 16% in Brazil and 23% in Italy.

Intermediaries should note that wealthier clients are especially frustrated: 69% want more information, 60% think intermediaries are failing, and 48% are being held back from investing in this way by this failing. Savers with more than $100,000 of accessible wealth are keen to engage with ESG approaches but are not getting the support and advice they need to press ahead with confidence.

Chart 3: The advice gap

Financial decision-making



Building a future-ready ESG service
ESG specialists argue that intermediaries that fail to engage with clients on these issues risk losing their business model in the future. "We see increasing demand (for advice on ESG approaches to investment) from the next generation of clients," warns Cléo Fitzsimons, Responsible Investments Manager at Cazenove Capital in the UK.

There is growing recognition that ESG-conscious investing will evolve naturally as wealth is passed on. Carlos Garay, responsible for ESG at Spain's Sabadell Urquijo Gestión, comments: "We are having meetings right now with clients who are, say, 60 to 70, and who are starting to bring their sons to meetings. In 10 years' time, those sons are going to be managing the meetings, and they will be definitely more focused on investing in these topics."

This research supports that view. Respondents aged 18-to-34 are already twice as likely to have invested according to their ESG values (38%) than the over-50s (19%). Parents, too, are more likely to be active ESG investors: 37% have already made an allocation to ESG, compared to 25% of non-parents.

Successfully navigating the transition from one generation to the next will, therefore, require intermediaries to address ESG issues.

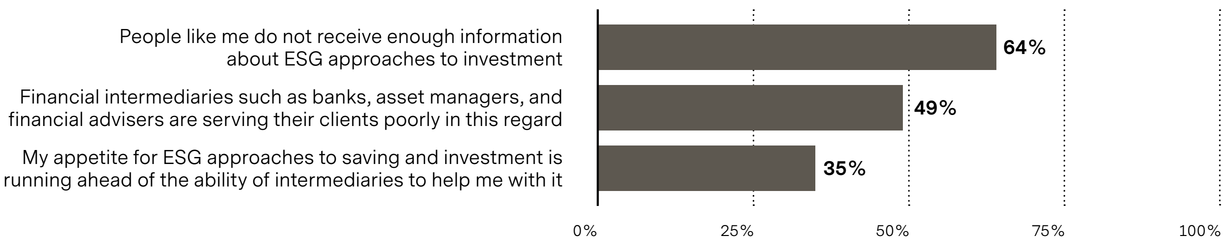
38%

of young investors (age 18 – 34) have invested according to their ESG values

19%

of older investors (over age 50) have considered ESG values when investing

Chart 4: An opportunity for intermediaries?



However, in the absence of more information and greater support for clients, the danger is that take-up of ESG will remain low. For now, ESG investment remains a minority activity – only 29% of respondents have already allocated a portion of their savings and investments to ESG approaches.

It is true that the figure is higher among certain groups. Adoption among degree-level respondents (35%) is running ahead of school leavers (15%) and men (32%) are more likely to have invested than women (26%). It's also striking that 43% of those with investible assets of more than $100,000 have ESG allocations, compared with only 27% of less wealthy respondents.

Even among groups that might be expected to have engaged with ESG, investment rates remain low. Moreover, those savers and investors who do have money in ESG allocations are limiting their exposures. Respondents who do have ESG investments have put an average of 31% of their portfolios into these approaches, rising to 40% among the wealthier.

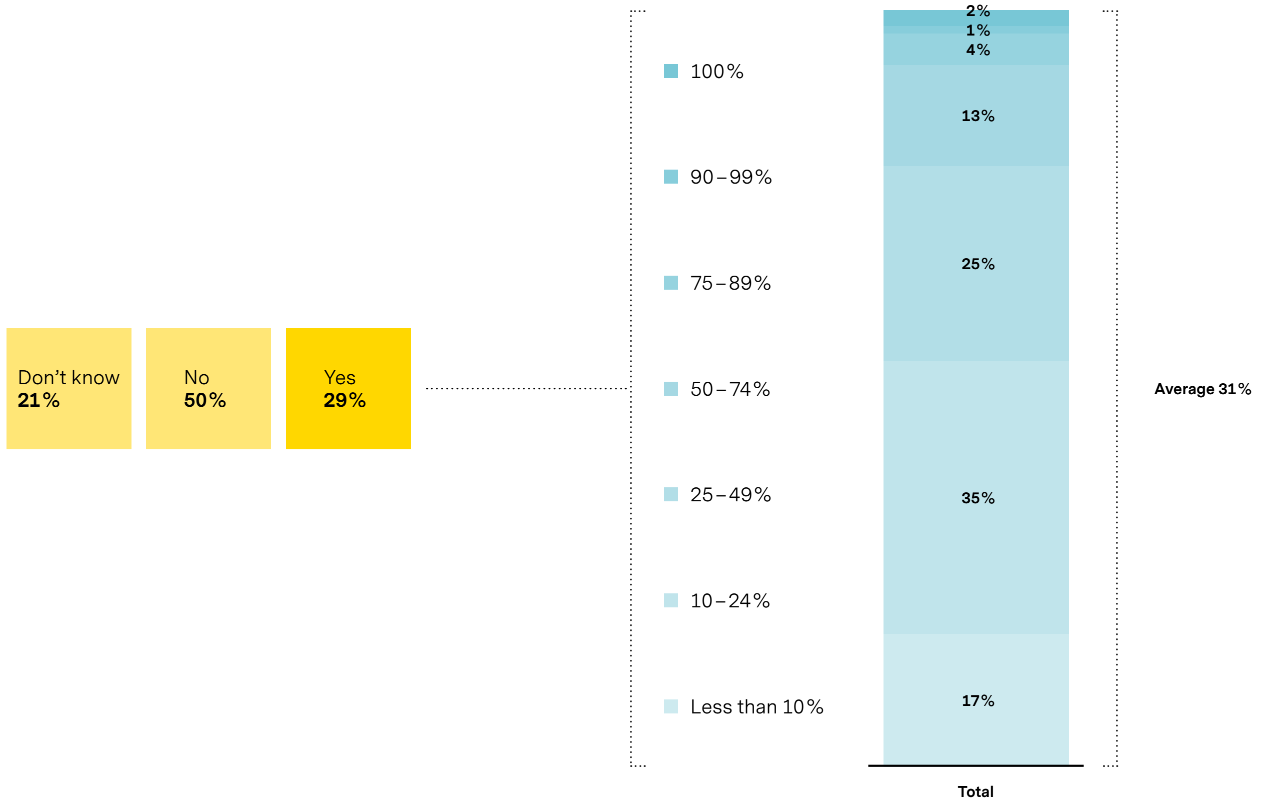
Consumers who do have ESG investments put an average of

31%

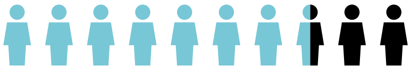
of their portfolios into these approaches

Chart 5: ESG allocations remain small

Proportion of investments allocated to ESG



Part 2: What investors want now



73 %

of consumers think too few companies take their societal responsibilities sufficiently seriously

Despite a lack of knowledge of ESG investment – and low take-up – it is clear there are now high levels of concern in society about a broad range of social, political and environmental issues. Three-quarters of respondents (75 %) in this research fear their children and grand-children will live in a world that is more dangerous and hostile than the one they know now. Also, 74 % do not think we're doing enough to tackle climate change, while 71 % say the same of inequality. Wealthier respondents are as likely – and often more so – to share these sentiments. Every age group agrees.

The Head of Market Intelligence at a leading Italian private bank believes product providers and intermediaries must develop services for clients that reflect these attitudes. His own bank has designed a new analysis model that enables advisers to align client concerns more closely with particular ESG funds. "Our aim is not just to offer broad exposure to an ESG universe, but to build relationships with individuals that reflect their sensitivities to particular concepts of socially responsible investment," he explains.

The reality is that many people are now beginning to change their financial behaviors to reflect these views. Some 47 % of respondents say they have started to consider environmental and social issues when they make purchases of food and other items. In some countries – Italy, the Netherlands, Spain, Switzerland, Argentina, and Brazil – more than half are shopping in this way.

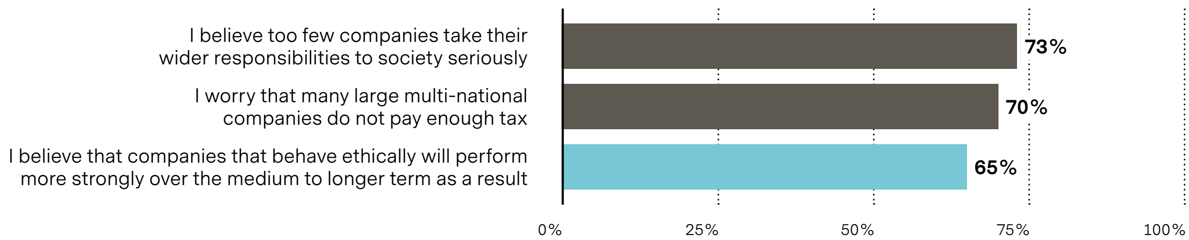
The savers and investors of tomorrow are especially aware. Asked about a range of possible behaviors, from using electric cars and sustainable energy to joining campaign groups, 75 % of 18-to-34-year-olds have done at least one – versus only 66 % of the over-50s. Those with higher levels of education and wealthier investors are even less likely not to have engaged in some way. Some 75 % and 81 % of respondents in these groups respectively have adopted at least one of these behaviors.

In other words, support for acting on ESG issues is already high and likely to rise in the future. Importantly, respondents are beginning to make the link between these issues and the businesses in which they might invest. There is a determination to hold these businesses to account: almost three-quarters (73 %) think too few companies take their societal responsibilities sufficiently seriously, while 70 % think multi-nationals do not pay enough tax.

Significantly, almost two-thirds of respondents (65 %) now think companies that behave ethically will outperform other companies as a result. The wealthy (70 %) and the more highly educated (69 %) are even more likely to hold this view.

These attitudes translate directly into respondents' views about why they might like to examine savings and investment decisions through an ESG lens. Already, a third of respondents (33 %) think that ignoring ESG issues during the investment process could lead to lower long-term returns. This rises to 41 % among wealthier respondents.

Chart 6: Linking ESG to corporate behaviors



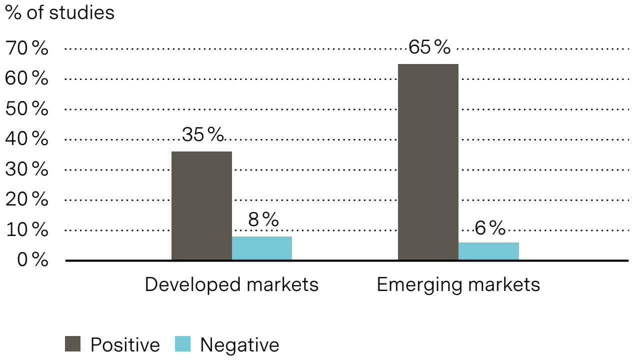
How ESG adds value

Between the years 1990 and 2000, investors thought that inclusion of ESG factors in investment decisions would mean giving up performance. But this thinking is outdated. There is evidence that ESG investments can enhance returns, partly by selecting companies that are better run, and partly by avoiding event-related risks. An extensive meta-review of over 2,000 academic studies on the effect of incorporating ESG factors into investments found strong evidence that ESG improves the risk / return profile of investments. Eleven times more studies identified a positive effect than a negative effect for emerging market investments, while the effect was similar but less pronounced for developed markets.

How does ESG add value?

While the 2,000 studies above considered many aspects of ESG, there are three core ways in which ESG improves investment results:

Review of 2,000 academic studies: did incorporation of ESG factors have a positive or negative impact on risk / return?



Source: ESG and financial performance: aggregated evidence from more than 2,000 empirical studies (Friede, Busch and Bassen, December 2015)

1.

Increases returns[1]
The MSCI World Socially Responsible Index outperformed the MSCI World Index by about 15 percentage points over 10 years.

2.

Reduces volatility[2]
Across almost all categories, equities funds with 5 Morningstar globes (high ESG rating) are significantly less volatile than those with 1 globe (low ESG rating).

3.

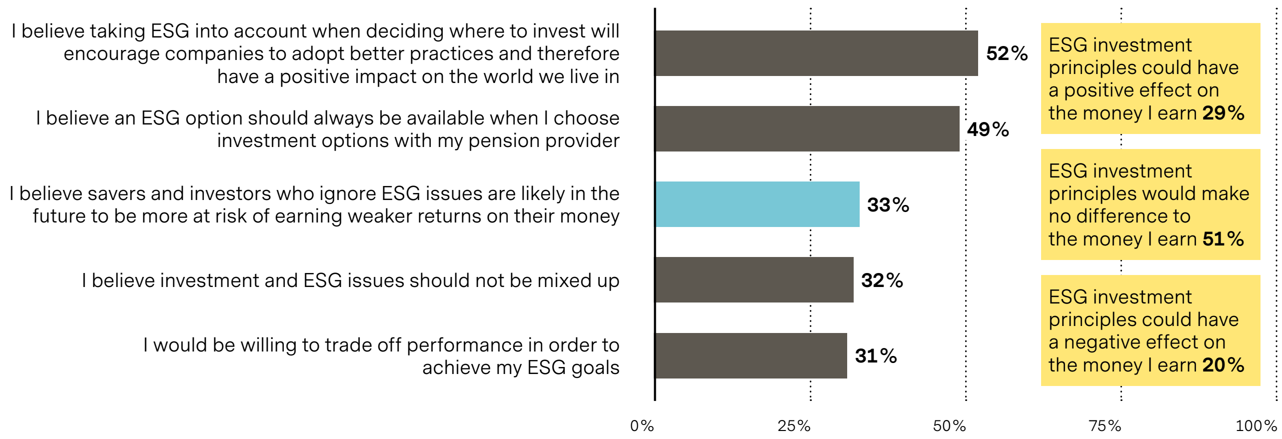
Complements traditional research[3]
Incorporating ESG factors into traditional research approaches significantly improves the risk adjusted return by up to 50 %.

Past performance is not a reliable indicator of current or future performance.

[1] Vontobel Asset Management analysis as of December 31, 2017
[2] Categories refer to characteristics of companies such as large, small, and mid-caps
Morningstar analysis, March 16, 2017
Source: morningstar.com
[3] Source: Bank of America Merrill Lynch, May 20, 2018
Period of 2005 – 2017, U.S. equities, BoAML investment universe

Equally, more than half (52%) think ESG investors could help persuade businesses to improve their behaviors, rising to 67% among the wealthy. This should be a powerful driver of ESG allocations, says Sabadell's Carlos Garay, who advocates talking to clients about how they want to use their power as investors. "We're especially focused on the G of ESG, and specifically around engagement," he says. "What our clients are very often looking for is for us to try to change these companies from the inside."

Chart 7: Gravitating towards ESG… with some anxieties



Still, given the conviction on the part of respondents not only about the importance of ESG issues but also their ability to take action through financial decisions and behaviors, why aren't more of them doing it?

The good news is that choice is improving, believes Vontobel's Thomas Trsan. "The investment universe is getting larger," he says. "There are more options than you had in the past, as well as more coverage and ESG analysis from the research providers, where there is increasing competition."

Still, the most significant driver of low take-up rates is likely to be the knowledge gap. More than half the respondents in this research (55%) say they simply didn't realize an ESG approach was possible. Even among the wealthier investors, where awareness is higher, 47% cite this reason for not investing with ESG principles in mind.

However, even among those who are more engaged with ESG approaches, misconceptions appear to be common. For example, 40% are concerned about additional cost if they invest this way, while 21% think performance could be compromised – strikingly, this rises to 41% among respondents with $100,000 or more to invest.

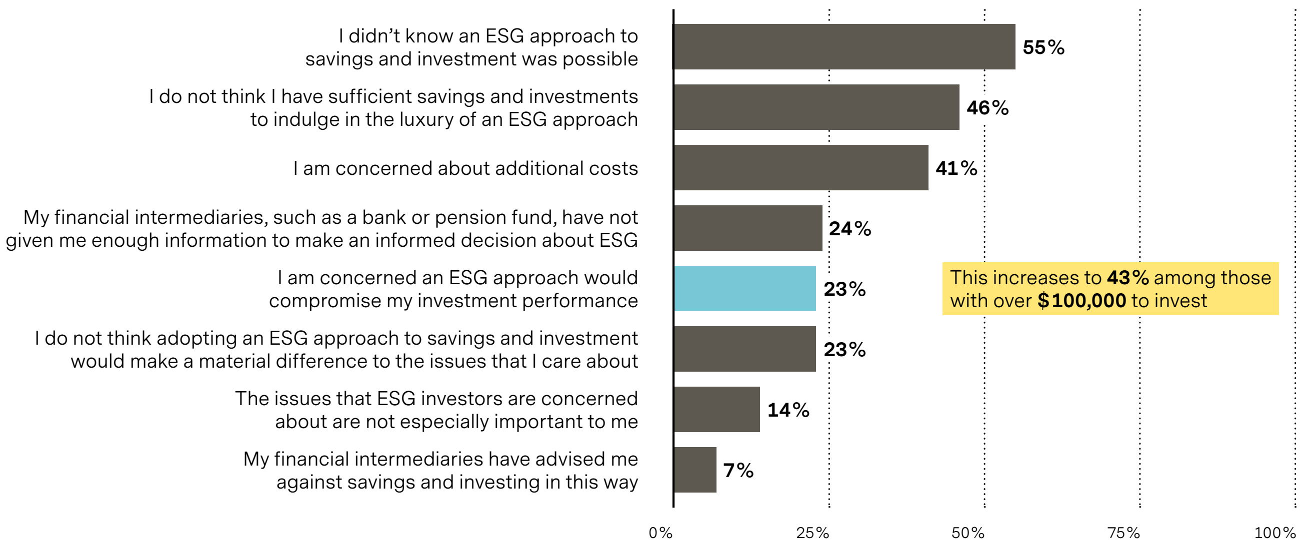
In fact, ESG specialists argue that the performance argument doesn't stand. "I can show you that, with a sustainable mandate, you can achieve the same market-based performance as you would with a non-ESG mandate, but with a lower risk," argues Vontobel's Thomas Trsan.

Nevertheless, there is a large cohort who appears to believe ESG is a "nice-to-have" approach to investment, to be considered once the basics have been covered. Almost half the respondents (48%) don't think they yet have sufficient savings and investment to "indulge in the luxury of an ESG approach."

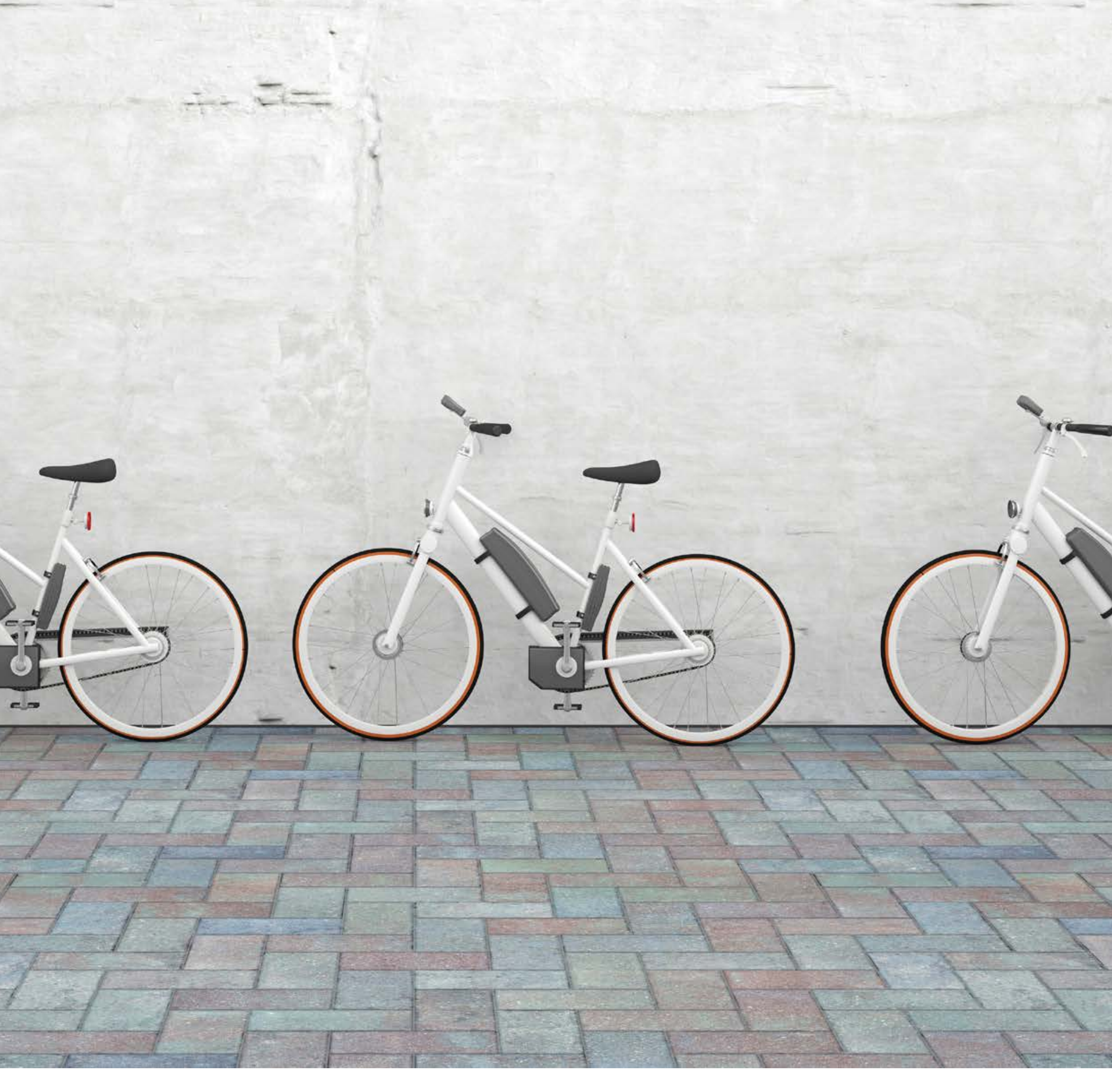
Product providers and intermediaries must work harder to change these attitudes, says Sabadell's Carlos Garay. "ESG is already well established: it's normal life, whether you're in the supermarket and hearing announcements about which products contain palm oil, or your children are in the nursery planting trees," he says. "This is a mainstream idea that is definitely here to stay."

Chart 8: Why conversion to ESG savings and investment is low

Reasons for not allocating savings and investment to ESG approaches



Part 3: Towards an ESG world



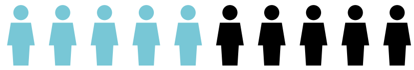
What will it take to convince more savers and investors to adopt an ESG approach for the first time, or to increase their allocations?

First of all, argues Vontobel's Thomas Trsan, product providers and intermediaries need to raise the ESG topic with their clients more frequently and deliberately. "These conversations are a real eye-opener for many clients," he says. "They just haven't had all the options and different approaches explained to them."

There are many different ways to reach out, adds TauRes's Philipp Achenbach. "We hold a lot of small-scale workshops, where we can talk directly about ESG investments to 10 to 30 people at a time," he says. "It's one of the best ways to reach new customers because you have more personal contact from the start."

New communication channels can help reach a larger audience, Achenbach adds. He now produces a regular podcast on socially responsible investment which clients can download and listen to at their leisure.

One important strategy for intermediaries and others as they make the case for ESG will be to understand the motivations of those who have already invested in this way. Here, our research is encouraging: existing ESG investors say they have experienced a wide range of positive outcomes. These include both values-based benefits – the desire to have money working for good (50%) or to avoid activities not liked (45%) – as well as performance goals – the desire for higher returns (37%) or reduced risk (33%).



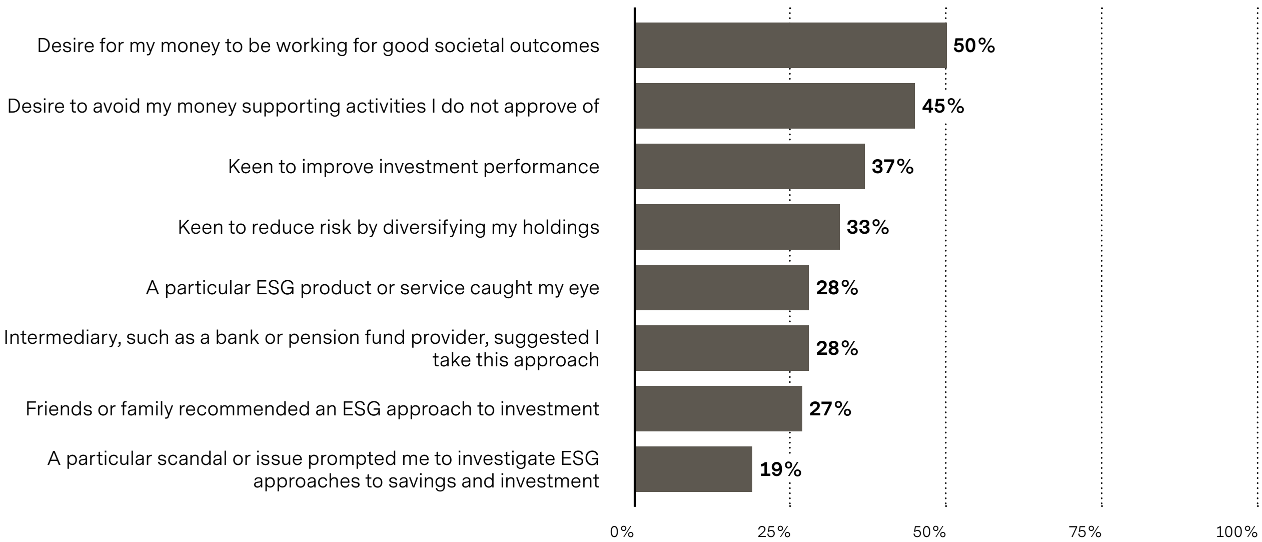
50%

of customers desire to have money working for good

Indeed, these motivations vary very little between investors of different ages and levels of wealth. In all categories, existing ESG investors believe they are doing well by doing good, achieving the performance they desire while supporting the principles they hold dear.

Chart 9: Why savers and investors have committed to ESG

Motivations for allocating savings and investment to ESG approaches



How to transform:
moving clients from knowledge to investment
There is no one-size-fits-all model for raising clients' knowledge levels and building their comfort with ESG investment levels, but a step-by-step approach will pay dividends:

1. Identify different client interests and structure your ESG offering accordingly. Do you have materials that cover clients' wide-ranging ESG interests, from ecology to social action, for example, and access to products that are a good fit?

2. Build engagement with clients through a broad range of channels depending on their preferred options. Are you offering face-to-face advice on ESG, printed information, mobile and online materials, social media engagement, and more?

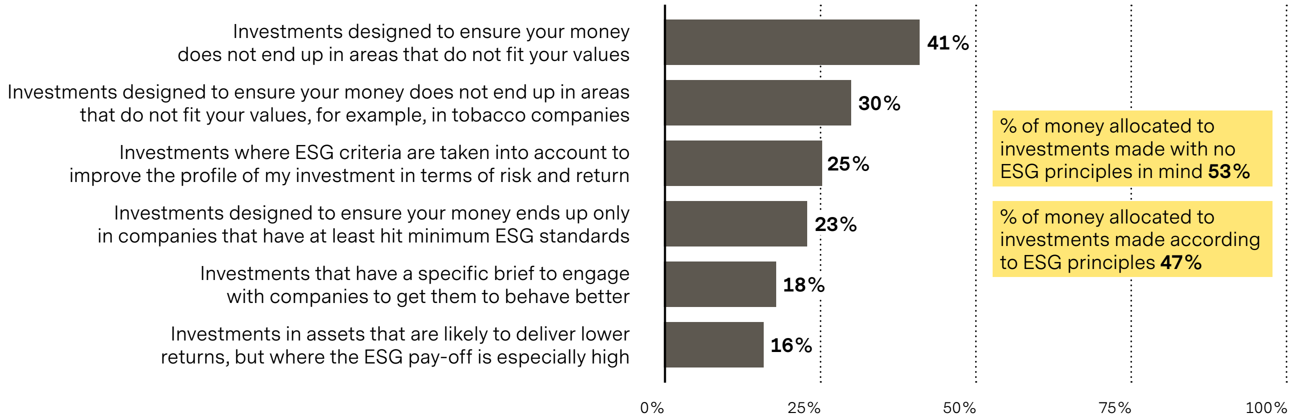
3. As client engagement develops into investments, keep communicating, particularly around performance – both investment returns and ESG results. Are you helping clients feel more comfortable with raising their exposure to ESG investment strategies?

Intermediaries prepared to raise ESG will often find themselves pushing at an open door. Asked how they would split a $100,000 capital sum for investment, respondents would, on average, put 47% into ESG-style allocations and 53% into non-ESG holdings.

At this more basic stage of thinking about ESG, negative screening feels like the most natural way forward to many investors – some 41% of respondents say their preferred approach to ESG would be to make investments that reflect their values, but that may change as investors become more sophisticated. For example, 30% of wealthier respondents say they would be particularly interested in ESG investments picked specifically for their potential to outperform, compared to 24% of those with less to invest.

Chart 10: Decision time

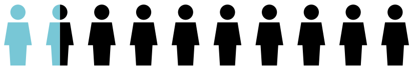
Most appealing types of ESG approach to investment



Indeed, when asked to specify what their ESG goals will be, many investors take a more proactive view. The top three priorities for ESG investors are a positive move towards renewable energy, environmentally friendly businesses or projects, and sustainable companies. Avoidance-based goals that focus on negative screening, by contrast, consistently rank lower.

One takeaway for intermediaries may be the importance of highlighting how an ESG approach can actively promote particular causes or priorities, rather than stressing how unpalatable companies can be avoided. This is what clients are very often looking for, says Cazenove Capital's Cléo Fitzsimons. "Clients' concerns are more about how their sustainability priorities will be met within the portfolio (than performance)," she says.

"We talk about the spectrum of sustainability – the various strategies within the sustainable universe… We start with ESG integrated strategies but also look at thematic investing, impact investment, and even philanthropy. Impact is the area where clients get most excited because they can see the tangible effects."

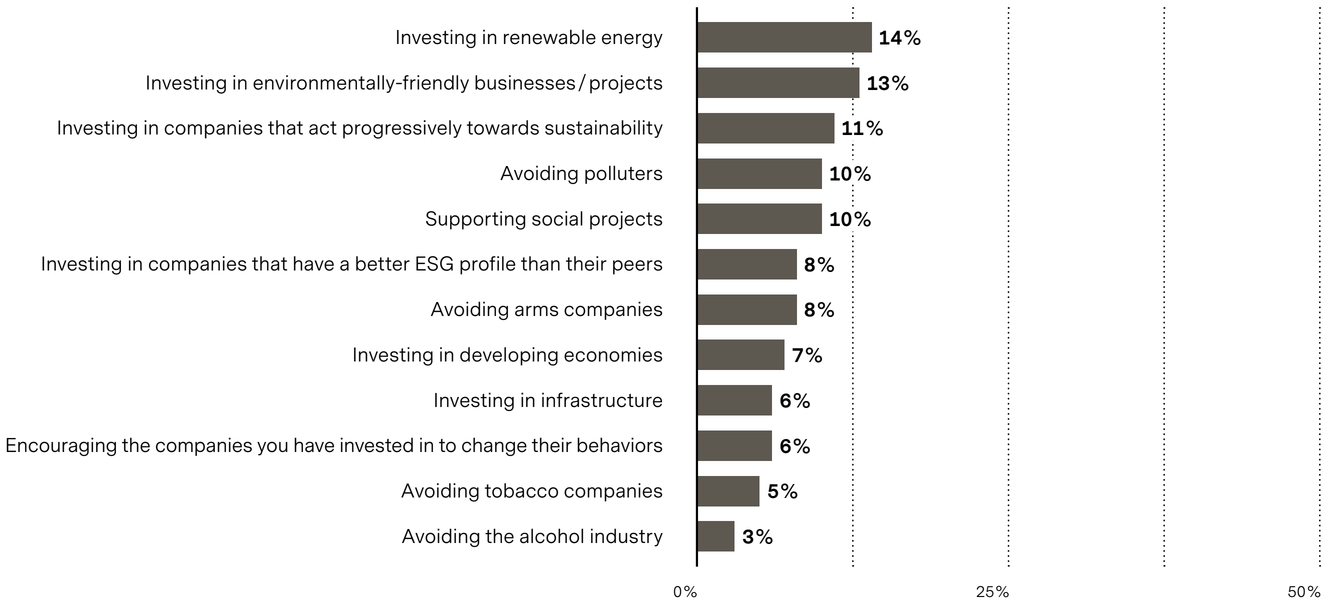


14 %

of consumers investing in renewable energy

Chart 11: The ESG goals most likely to attract investment

Investing for long-term financial goals



Each value is out of 100, where for example a score of 20 is twice as important as a score of 10.

There remains much to do to help savers and investors feel more comfortable about executing their undoubted ambitions to reorient their savings and investments towards the values they hold dear.

Groups beyond the financial sector are important influencers, underlining the need for the ESG sector to engage more broadly and communicate more effectively. Family members, for instance, are more likely to push people towards ESG approaches than any other single group.

Nevertheless, financial intermediaries are the most influential group on savers and investors beyond personal relationships: 39% of respondents to this survey say they would pay significant attention if their intermediary advocated moving more of their savings and investments into ESG opportunities. That figure rises to 45% among more wealthy respondents.

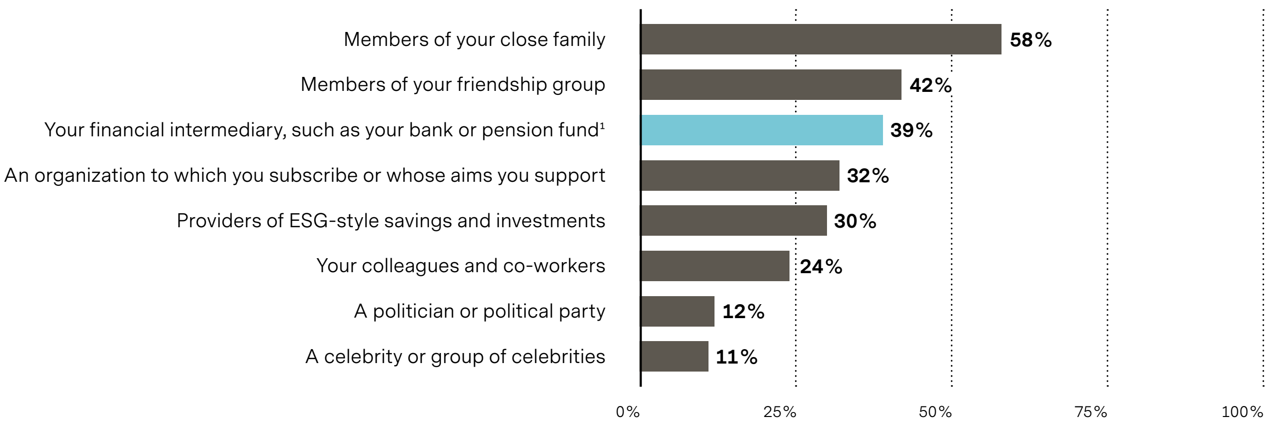
For asset managers in the ESG space, the intermediary audience must now be a key target for education and marketing support. For intermediaries themselves, their influence underlines the importance and value of raising the profile of ESG approaches with clients.

What do you believe in?
As ESG becomes mainstream, the number of options and approaches increase as well. For an investor considering a sustainable investment, this document aims to provide a digestible overview of the sustainable landscape and aims to help you make informed and active choices so that you can pick the right approach based on your needs and beliefs. We start the discussion with a question: What do you believe in?

Advancing the quality of financial consulting may require recruitment of staff who are more enthusiastic about driving ESG approaches. TauRes's Philipp Achenbach observes: "It's generally our younger employees who approach this topic open-mindedly. I think our peers would say the same."

Certainly, more training for advisers is imperative, argues one Italian private banker with responsibility for ESG. "We have recently launched a program of training and education specifically to help advisers talk to clients about ESG approaches to investment," he says. "There is a great deal of work to do on education within intermediaries themselves."

Chart 12: Who people listen to on ESG: intermediaries are vital
Influence for moving more investments into ESG opportunities



[1] It's also important to improve perceptions of intermediaries as they can have a strong influence

Regulatory or policy interventions may provide the impetus for taking ESG more seriously. More than half of respondents (55%) believe financial intermediaries should be required by law to engage more extensively with their clients on ESG issues, while 54% say occupational pension plans should have to offer ESG investment options to members.

In fact, legislation in Europe, in particular, is now heading in this direction. The European Commission's Action Plan on Sustainable Finance[2], unveiled last year, will seek to standardize definitions of different types of ESG investment approaches and introduce new requirements for institutional investors to consider ESG issues in their risk processes. New rules on reporting are also likely to be introduced.

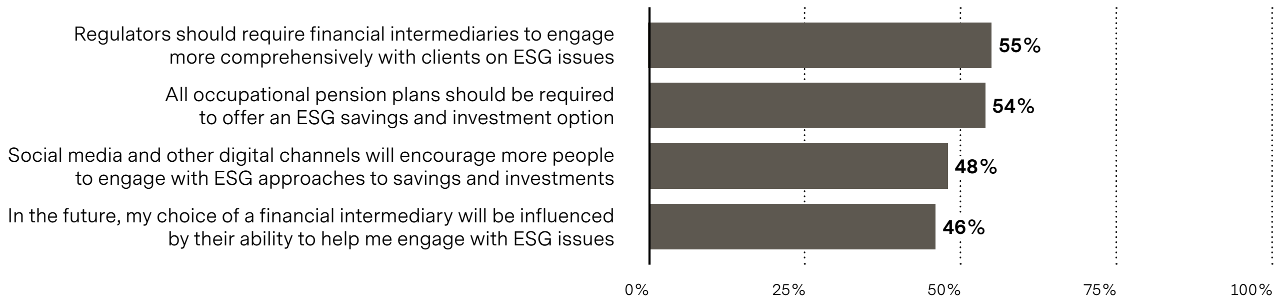
This will be important both in raising the profile of ESG approaches and protecting their credibility, argues Oberbank's Erich Stadlberger. He fears a backlash if the financial services industry is seen to be cashing in on investors' desire for a values-based approach without providing the genuine support they require to invest productively in the field.

"The biggest danger for the sector is lack of credibility where people are misusing the name of sustainability," Stadlberger says. "The keyword is 'green-washing' and I think the fact that authorities such as the ESMA (European Securities and Markets Authority) are now going to work on guidelines to avoid this is important."

However, even without a regulatory imperative, intermediaries and the broader financial services industry now have every reason to work harder to give savers and investors the support and service they crave. Some 54% and 53%, respectively, of 18-to-34-year-olds and 35-to-49-year-olds expect to become more engaged with ESG and to save and invest accordingly as they get older – they will need professional support to realize these ambitions.

Indeed, almost half the respondents to this research (46%) say their choice of a financial intermediary will be influenced in the future by the ability to help clients engage with ESG issues. Among those with accessible wealth of more than $100,000, this figure rises to 57% – and to 58% among more highly educated respondents.

Chart 13: Time for intermediaries to step up



[2] Sustainable finance, May 2018, European Commission, ec.europa.eu

45 %

of investors would sell off an investment in a company whose activities they disapprove of

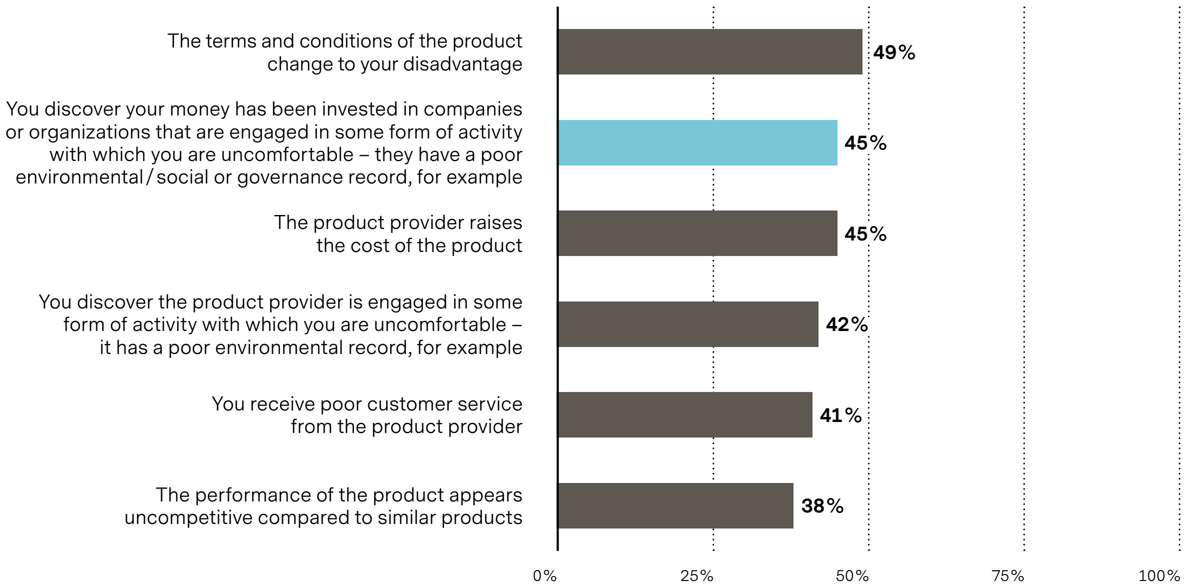
It should also be noted that respondents will increasingly see poor ESG performance as a reason to jettison savings and investment products. Almost half the respondents to this research (45 %) say that discovering their money had been invested in an organization engaged in activities of which they disapprove would prompt them to switch out of a product.

Remarkably, this potential reason for churn is now seen as carrying more weight than increased cost or poor performance. The only disappointment more likely to persuade respondents to go elsewhere would be a disadvantageous change in the terms and conditions of the products.

In other words, ESG has the potential to be a make-or-break issue for many investors. The evidence of this research is that intermediaries able to offer practical support and advice on ESG will increasingly have a competitive advantage. Asset managers able to offer greater ESG choice will meet rising demand. And wealth managers and financial advisers that do not consider investors' views risk losing their business.

Chart 14: ESG failures could lead to churn

Reasons to switch out of savings or investment products



Conclusion

The message from this research is clear: while increasing numbers of savers and investors are keen to embrace a values-based approach to financial decision-making, a lack of support and advice is currently holding many people back. ESG issues already change their behaviors in fundamental ways – from the cars they drive to the shopping choices they make – but people now need more help to extend this approach into saving and investment.

The trend towards ESG investment will only accelerate. As issues such as climate change become ever more prominent and changing regulation raises the profile of ESG approaches to investment, savers and investors will demand more from intermediaries and product providers. Those unable to meet this need adequately will lose out to better performing peers.

Vontobel is committed to playing its part. We are partnering with internal and external experts and are building ESG product ranges.

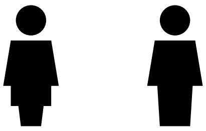
We recognize there is no single correct approach to ESG. Every saver and investor has their own beliefs and values – and, of course, highly individual and personal financial objectives. It will be crucial to work with all investors to understand their needs – including both the wealthier investors of today already making asset-allocation decisions and the ESG-engaged investors of tomorrow.

In other words, it is time to start the conversation. The personal touch will be imperative. Those intermediaries able to develop customized ESG plans that meet the financial and ethical objectives of their clients will be well placed to succeed in this new world of engagement.

About the research

This research is based on an online survey of 4,643 consumers in 14 countries, as well as a series of qualitative interviews with key opinion formers. Both the quantitative and qualitative research was carried out by Longitude, a Financial Times company, between March and April 2019. The breakdown of the survey respondents is detailed in the chart below.

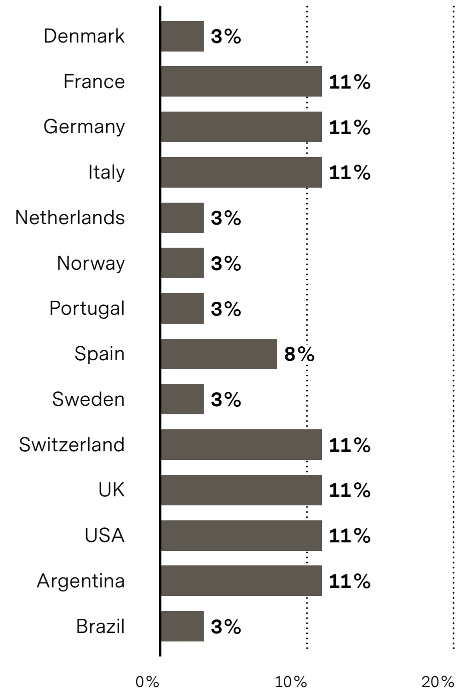
Gender



52% Women

48% Men

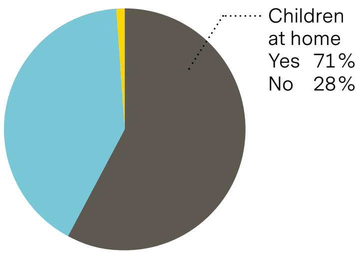
Country



Age

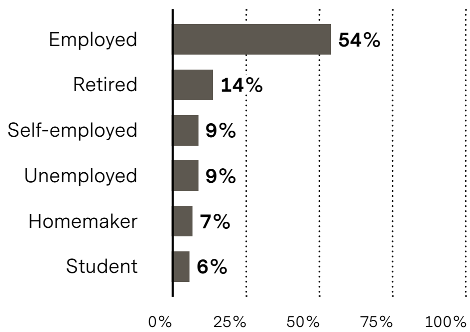
50+	33%
35–49	33%
18–34	34%

Parent / Children

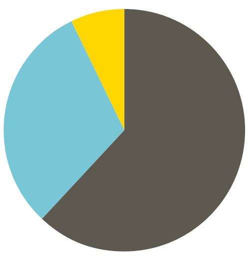


Yes	58%
No	41%
Prefer not say	1%

Occupation



Income



Low	62%
Medium	31%
High	7%

$ 63,386

Average accessible wealth

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