PUBLIC AND INVESTOR ATTITUDES TO 'GOOD' MONEY 2020

PLUS SEVEN WAYS INVESTMENT FIRMS CAN BETTER INFORM AND ATTRACT SUSTAINABLE INVESTORS

UKSIF
UK Sustainable Investment and Finance Association

WELCOME

CHARLENE CRANNY, DIRECTOR OF GOOD MONEY WEEK

Each year, we aim to get a sense of where the retail market is in its acceptance and demand of sustainable, ESG, impact, and ethical investment and finance. This is usually achieved through YouGov research providing a snapshot of public attitudes. This year we decided to dig deeper. We commissioned FinText to conduct a social listening exercise whereby they analysed public conversations between private investors on the Reddit platform from January 2019 to August 2020 (page 6). We wanted to discover whether private investors are speaking the same language as sustainable finance providers and ask if these types of strategies are really making it into the mainstream. Or is the industry still in a bubble?

I'll start with the bad news. We rarely come up in conversation. The most common terms used are ESG, SRI and ethical and when they were raised they were often dismissed as viable strategies (see page 7). But here's the good news - UKSIF members have great answers to all the objections raised and have a real opportunity, as the leaders, to be the first to welcome and serve these potential clients as we move further along the policy driven transition to a more sustainable, net zero economy.

So, how do we get the conversation started with these retail investors? We reviewed 10 academic choice experiments conducted across Europe to draw up a list of seven recommendations for communication techniques and targeting (page 9).

Finally we hear from two fund management leaders in this space, Aberdeen Standard Investments and Liontrust to get their reaction to the research and how they approach driving retail demand (pages 11 and 12).

There is an incredible opportunity here. The **Good Money Week** and **UKSIF** team is delighted to support you.

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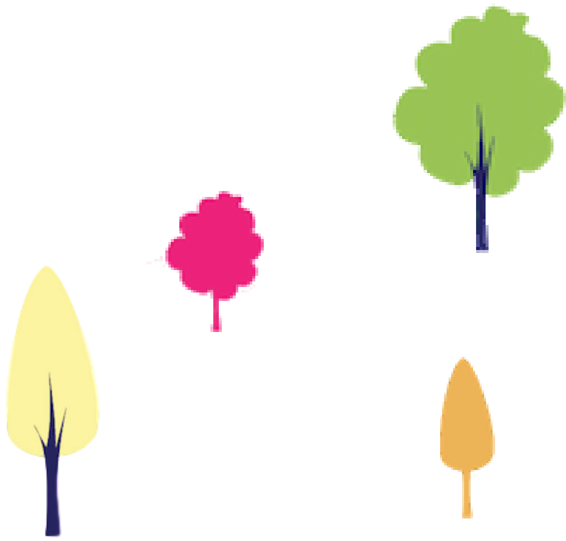

This report has been produced for Good Money Week 2020, the annual campaign to raise awareness of sustainable, responsible and ethical banking, pensions savings and investments. This year we look at how our money can support a green and fair recovery after the pandemic. Ensuring we build back better in a way that works for people, planet, health and wealth. Good Money Week is co-ordinated by UKSIF (UK Sustainable Investment and Finance Association). UKSIF is the membership association for those in the finance industry committed to growing sustainable and responsible investment in the UK.

Produced by Charlene Cranny with supporting research provided by YouGov and FinText. October 2020. With thanks to our sponsors Aberdeen Standard Investments, Liontrust, Aviva and Stewart Investors.

PUBLIC ATTITUDES TO MONEY AND ETHICS DURING THE PANDEMIC

In this section, we look at the results of our YouGov survey which asked members of the public how they have been impacted by the pandemic financially, how their attitudes to ethical consumerism have changed and what they think Britain needs for things to get better.

All figures, unless otherwise stated, are from YouGov Plc. The total sample size was 1,623 adults. Fieldwork was undertaken between 23rd-24th September 2020. The survey was carried out online. Figures have been weighted and are representative of all GB adults (aged 18+).

FALLOUT OF THE PANDEMIC

MANY WERE NOT PREPARED

Nearly 40% (37%) of Brits say that they were not financially prepared for the Coronavirus pandemic. Nearly a quarter (23%) have had to use alternative methods for financial support since the start of the pandemic, with 25-34-year-olds hit hardest (36%) out of all age groups, and the 65+ age group least likely to have needed to source alternative help (9%).

12% of Brits needed to resort to credit cards, 8% to an overdraft, and the same percentage borrowed money from family or friends. Looking at the amounts borrowed, nearly two thirds (61%) borrowed £5,000 and under, with nearly a fifth (18%) borrowing amounts ranging from £5,000 to £30,000.

THE IMPACT OF FURLOUGH ENDING

Respondents were also quizzed on the personal impact of the Coronavirus Job Retention Scheme, which has subsidised the wages of nearly 10 million furloughed workers since mid-March. 1 in 10 (10%) said they would be financially impacted by it ending, but this figure nearly doubled to 19% for the 18-24-year-old age group, who are the most likely to be affected.

THE PERSONAL FINANCE WAKE-UP CALL

It's no surprise then that many Brits have had a personal finance wake-up call in recent months; a third of Brits (33%) admit that the Coronavirus pandemic has made them think about their finances more seriously, with women more likely than men to feel those after-effects (37% of women vs. 28% of men). And, looking ahead, 37% of Brits are now likely to revamp their finances as a result. 60% said they are planning to cut back on non-essential spending which is perhaps not surprising, but, more encouragingly, just under a quarter (23%) are looking to invest their money, with the same amount likely to start a new savings account. Some 11% are planning to switch bank accounts.

37% OF BRITS ARE NOW LIKELY TO REVAMP THEIR FINANCES ... 60% SAID THEY ARE PLANNING TO CUT BACK ON NON-ESSENTIAL SPENDING, AND JUST UNDER A QUARTER (23%) ARE LOOKING TO INVEST

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BUT... THE MAJORITY DID SAVE MONEY

However, despite the economic downturn and job losses owing to the pandemic, over half of Brits (51%) actually managed to save money during the pandemic, with the 65+ age group faring best (64%).

Also positive is the news that there has been an increase in people more likely to shop ethically, although this isn't translating into how they deal with their personal finances. Despite 30% of Brits saying they are now much more likely (compared to last year) to actively choose products and services based on their positive environmental or social impact, only 5% of those who saved money would consider investing it with a positive impact or ethical investment platform, though this figure rises for those with a monthly disposable income of between £1,750-£1,999 (31%) and £500-£749 (15%).

BUILDING BACK BETTER - OUR FINANCES AND THE UK

BRITS WANT TO SEE MORE ENVIRONMENTALISM

When respondents were asked which key public figures they think represent the ethics or values they'd like to see more of in Britain if, or when, it "builds back better", natural historian and pioneer David Attenborough (74%) was the top choice, followed by Swedish environmental activist Greta Thunberg (44%). Third came Marcus Rashford (39%), who this year successfully campaigned for the Government to extend the school meal voucher scheme for the summer holidays.

Separately, only 24% of respondents said Boris Johnson represents the values and ethics they'd like to see more of in Britain when it "builds back better".

Over half (51%) of the nation agrees that the Government should prioritise lowering carbon emissions when "building back better" from the Coronavirus pandemic, even if it takes longer. 18% think the Government should prioritise lowering carbon emissions when "building back better", but only if "building" is not slowed down.

A NET ZERO BOND FOR THE PUBLIC IS SUPPORTED BY INVESTORS

Furthermore, Brits support the idea of themselves helping to finance a low-carbon economy, and support was strongest amongst those most able to afford it.

49% of Brits support a low-risk Government bond made available to the public and used to help build net zero emission housing, roads and transport. Support was particularly high for those with a disposable income of £1,500-£1,749 a month (86%) and £1,750- £1,999 a month (70%). High levels of support also came from those who already hold investments in commodities (77%), investment trusts (62%) and bonds (57%).

BUT PEOPLE ALSO PREFER BASIC SAVINGS ACCOUNTS TO INVESTMENTS

Despite this, savers at every disposable income level between £125 and £2,000+ a month are more likely to consider a basic savings account for their money rather than an ISA or investment platform.

Overall, 50% chose a basic savings account, 36% an ISA and only 14% would invest. Those with £2,000+ available each month are most likely to speak to a financial adviser (26%) to consider their options.

49% OF BRITS SUPPORT A LOW-RISK GOVERNMENT BOND MADE AVAILABLE TO THE PUBLIC AND USED TO HELP BUILD NET ZERO HOUSING, ROADS AND TRANSPORT

PUBLIC ATTITUDES TO MONEY AND ETHICS DURING THE PANDEMIC

SIGNS OF CONFUSION AROUND ETHICAL INVESTMENT

Our data suggests some conflicts in the public mind. A majority think the Government should prioritise lowering carbon emissions when "building back better" and nearly half would buy a Government bond to support low carbon investment, but this thinking isn't driving investment practices.

Although 30% of Brits say they are now much more likely (compared to last year) to actively choose products and services based on their positive environmental or social impact, only 5% of those who saved money would consider investing it with a positive impact or ethical* investment platform, though this figure rises for those with a monthly disposable income of between £1,750-£1,999 (31%) and £500-£749 (15%). And the problem seems to be one of understanding. 75% don't know what ethical investing actually means, although 70% had thought about it. Only 9% said they think it is important to invest their money ethically, despite 30% saying they are more ethically conscious than last year and actively choosing products and services based on their positive environmental and social impact.

While 24% said they are equally concerned about whether their investments make money and a positive difference to the world, 37% said they don't know.

People are becoming more ethically conscious and thinking about ethical investment, but don't seem to know enough about it to truly commit to the idea. There is a real opportunity here for sustainable finance firms to improve how they reach and connect these people to the investments that will actively build the future they want to see.

**We used 'ethical' as a familiar catch-all phrase for sustainable, impact and ESG as that is the most widely understood term for members of the public and kept things simple for those unfamiliar (most) with specific investment strategies and their differences.*

PEOPLE ARE BECOMING MORE ETHICALLY CONSCIOUS AND THINKING ABOUT ETHICAL INVESTMENT, BUT DON'T SEEM TO KNOW ENOUGH ABOUT IT TO TRULY COMMIT TO THE IDEA.

PRIVATE INVESTOR ATTITUDES TO ESG

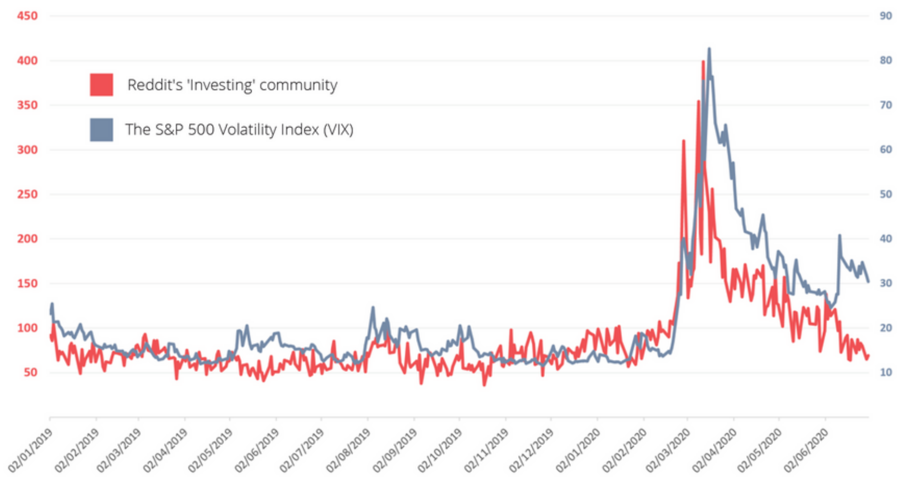
For this section, we look at the results of FinText analysis investigating online investor conversations over a 20 month period to see what else we can find out about the knowledge barrier to ESG and sustainable investing. It's the equivalent of conducting multiple focus groups. Here is what we found:

Investors aren't talking about 'ESG', 'Ethical Investing' or 'SRI' very much

All figures, unless otherwise stated, are from FinText. Total data analysed 74 conversations, 2347 responses, as appeared on Reddit r/investing over the period of January 2019 - August 2020.

The conversations consisted of discussions in which the terms 'ESG', 'Ethical Investing' or 'SRI' all appeared AND where they had meaningful conversations around these issues.

The first thing we found is that the share of conversation for these topics is exceedingly small. As Figure 1 shows, the number of new daily conversations in the community on all investment topics – which moves closely with the S&P 500 volatility index – often surpasses 100.



'ESG' is the most commonly used term

Provided by: FinText and Investing.com

Among the three terms (ESG, SRI and ethical), ESG is the most common, appearing at least once in 86% of the conversations analysed. Ethical Investing appeared in 51% of the conversations, and SRI in 34% of the conversations.

We also looked for co-occurring terms investors use when talking about ESG investing. Ethical Investing is the highest co-occurring term: 46% of discussions featuring the term ESG also feature reference to a variant of the 'Ethical Investing' term. For SRI, nearly all of its appearances are alongside ESG or Ethical Investing (92%).

PEOPLE ARE BECOMING MORE ETHICALLY CONSCIOUS AND THINKING ABOUT ETHICAL INVESTMENT, BUT DON'T SEEM TO KNOW ENOUGH ABOUT IT TO TRULY COMMIT TO THE IDEA.

PRIVATE INVESTOR ATTITUDES TO ESG

There are 3 main investor objections to ESG

The YouGov survey showed that only 9% of the public think it's important to invest money ethically, and 84% are willing to accept investing in something that was unethical or countered their beliefs. The FinText research helped us to delve deeper into the resistance to investing ethically, and finds 3 consistent objections:

1) **Lower returns**
2) **Qualifying criteria**
3) **Lack of impact**

The first objection is the belief that ESG investing mostly delivers inferior returns. This objection was raised at least once in 43% of the conversations.

Investors expressing this view presumably believe investing is done solely for the purpose of financial gain. In their view, ESG products are likely to underperform.

Such investors probably simplified the recent bout of outperformance of ESG products to their likely underweight in the energy market (which has underperformed as a sector) and/or an overweight in tech (which has outperformed), perhaps missing the point this is rooted in ESG - i.e. who is resilient against or adapting to risks related to public health. Morgan Stanley published a white paper 'Sustainable Reality' in 2019 sharing the results of their analysis of 11,000 mutual funds from 2004 to 2018. They found that a trait of sustainable investment is that it outperforms when markets are volatile. The pandemic only proved this again.

“ESG funds tend to underperform (and charge higher management fees). They underperform because the selection criteria may remove some diversification effects, and others remove profitable companies that make up the total returns of a fund that doesn't discriminate. So in other words, you're paying (fees and underperformance) for essentially a personal preference/taste.” Private Investor.

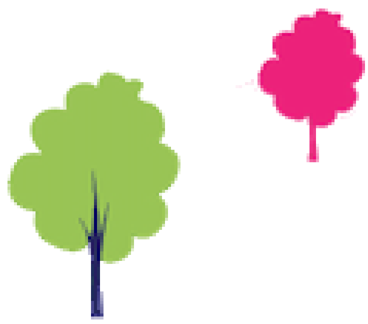
The second objection presents the view that 'ESG' means different things to different people. This objection was raised at least once in 34% of the conversations analysed.

Investors who hold this view argue either that the screening applied by ESG products falls short of their own expectation of what ESG is, or that the idea of defining what qualifies as ‘ethical’ and what doesn’t is inherently flawed.

“My complaint with the "ethical/socially responsible" ETFs is that every single person has a different notion of what that means and those ETFs often don't coincide with what you typically hear from people. A lot of people would say they don't want any oil and gas companies in their socially responsible fund, for instance.” Private Investor

Investors holding this view often articulated a related view, stating that while funds with fixed criteria don’t align with ethical considerations, active stock-picking can mitigate this problem.

“TO ME, HIGHLY ACTIVE ESG MAKES SENSE. DEEPLY, DEEPLY SCEPTICAL ABOUT PASSIVE INDEX CONSTRUCTIONS. JUST LOOK AT HOW CONSISTENT DEFINITIONS ARE. THINGS ARE RARELY EASY AND WORTHWHILE.” PRIVATE INVESTOR



PRIVATE INVESTOR ATTITUDES TO ESG

The third objection is that equity ESG investing has no real-world impact, since share trading in the secondary market doesn't influence a company's fortunes. This objection was raised at least once in 28% of the conversations analysed.

"I care about the ethics of a company, but whether I own them or not makes no difference. I'd be sacrificing my returns that cause no impact because someone else will hold the shares anyway. What I think would create an impact is if I can stop their projects (by having controlling shares), limit their funding (stopping their financing with banks), or boycott their products/services. Out of the three, I only have one option." Private Investor

In conversations, investors sometimes presented an alternative to ethical investing, by diverting regular investment-returns into charitable causes. This perspective was presented at least once in 20% of the conversations analysed.

"Put it in a total market fund. Take whatever the fund achieves over one of those ethical/sustainable funds and give it to a charity of your choice. You'll have a much, much greater impact that way." Private Investor

Further, on nearly half the occasions when investors raised the 'impact' objection, at least one participant raised the alternative of charity donations.

This supports the view that some investors see ESG investing as compromising on returns for a purpose they liken to "charity", rather than as a route to enhanced returns.

Investors who do find ESG appealing

In conversations, some investors presented an enthusiastic view towards ESG investing. Aligned with the YouGov survey, these were a minority. Nonetheless, these early adopters are articulating where they see the value in ESG investing.

Their views are broadly divided into two categories: one, that ethical investments are worthwhile despite possible lower returns; and two, that ethical investments will ultimately deliver superior returns.

"You quite literally vote with your money. Buying shares raises the value of the company and finances its endeavours. Ethics do play a role in my investment strategy. There are companies I refuse to invest into, no matter how well they do. There's a chance I'm losing potential profit by doing this, but doing the right thing sometimes bears a cost." Private Investor

"LOTS OF PEOPLE INVOLVE THEIR MORALS WHEN INVESTING, AND THERE'S NOTHING SPECIFICALLY "WRONG" WITH THAT. YOU COULD MAKE THE ARGUMENT THAT INVESTING ACCORDING TO YOUR MORALS IS A FINANCIALLY GOOD STRATEGY, BECAUSE IF EVERYONE ULTIMATELY ADOPTS YOUR MORALS, THEN YOU'LL BE AHEAD OF THE GAME ON THOSE INVESTMENTS." PRIVATE INVESTOR

SEVEN WAYS TO BETTER INFORM AND ATTRACT SUSTAINABLE INVESTORS

While new EU and UK policies responding to the necessity and inevitability of a more sustainable economy are helping to mainstream sustainable investment at the institutional level, it is clear that there is still some way to go in the retail space. Availability of sustainable, impact and ESG retail products is increasing. But it's up to the industry to market these in a way that is understood, challenges misconceptions like underperformance and make positive impact investing attractive to investors and savers.

Here are seven tips for finance firms looking to better inform and attract sustainable investors.

The tips arise from ten empirical choice experiments that took place across Europe between 2018 and 2020. There were 203,263 participants across the studies which featured choice experiments using actual and hypothetical scenarios and investors. Most of the choice experiments used surveys where participants were asked to choose between sustainable and non-sustainable investments, or were given the option to increase their sustainable holdings. Having reviewed the experiment results, we've been able to draw up a list of seven recommendations for communication techniques, for framing, and for customer targeting best practice:

1) **Appeal to social responsibility**. Investors who measure high on scales of social responsibility, sustainability preference and altruism are the most likely to choose sustainable investment, and they are most likely to respond to information that is aligned with those factors.

2) **Appeal to the desire for financial returns**. Non-sustainable investors will still make sustainable choices if potential returns are attractive. Moreover, while socially responsible investors will pay extra to have sustainable investments, they still expect a return. Though not too much. Highly altruistic investors may reject sustainable funds if the returns seem too high.

3) **Promote online**. In order to attract retail investors to sustainable investments, providers must communicate more often and in more places. This is particularly true of the internet, which is the most commonly used source of information for current and interested sustainable investors. Internet sites and channels that appeal to social responsibility, sustainability and altruistic interests are likely to be most successful.

4) **Create shareable content**. The likelihood of someone investing in sustainable investments increases for those who have a desire to tell their friends and peers about it.

5) **Use labels**. Investors who already have an interest in sustainable investment, invest in sustainable investments or have high levels of altruism are likely to make a quick, intuitive decision to choose it. Therefore, when targeting these audiences simple but obvious sustainability information is likely sufficient to create interest. Labels work very well, especially a star rating system.

THE LIKELIHOOD OF SOMEONE INVESTING IN SUSTAINABLE INVESTMENTS INCREASES FOR THOSE WHO HAVE A DESIRE TO TELL THEIR FRIENDS AND PEERS ABOUT IT.

SEVEN WAYS TO BETTER INFORM AND ATTRACT SUSTAINABLE INVESTORS

6) **Use positive images**. Use positive images when promoting your investments to associate your products with the outcomes, or future, the fund is trying to achieve. While negative images of environmental breakdown do trigger a fear response that inspires immediate action, audiences will move away from the image rather than towards it when looking for a solution. The ideal example of strategic placement of images would be to have a positive advert promoting your solution placed on the same page as a negative news report.

7) **Appeal to women**. Women are consistently more likely than men to choose sustainable investments and more women are interested in sustainable investments than actually hold a sustainable investments product. While there is still a gender wealth gap, women are getting wealthier and offer a lucrative opportunity in a marketplace that both sexes feel is geared towards men. Use images of women, show how you understand their specific needs and be where they are, either on or off-line.

The experiments

Explore the studies in full for more great insights:

1. Gutsche, G., Zwergel, B. Investment Barriers and Labeling Schemes for Socially Responsible Investments (2020)
2. Vanwalleghem, Dieter & Mirowska, Agata. The investor that could and would: The effect of proactive personality on sustainable investment choice. (2020).
3. Anderson, Anders and Robinson, David T., Financial Literacy in the Age of Green Investment (2019).
4. Rossi, Mariacristina and Sansone, Dario and van Soest, Arthur H. O. and Torricelli, Costanza, Household Preferences for Socially Responsible Investments (2018)
5. Bauer, Rob and Ruof, Tobias and Smeets, Paul, Get Real! Individuals Prefer More Sustainable Investments (2020)
6. Døskeland, Trond & Pedersen, Lars Jacob Tynes. Does Wealth Matter for Responsible Investment? Experimental Evidence on the Weighing of Financial and Moral Arguments. (2019)
7. Brodback, Daniel and Guenster, Nadja and Mezger, David, Altruism and Egoism in Investment Decisions (2018)
8. Gunnar Gutsche, Anja Köbrich León, Andreas Ziegler, On the relevance of contextual factors for socially responsible investments: an econometric analysis (2019)
9. Bassen, A., Gödker, K., Lüdeke-Freund, F., & Oll. Climate Information in Retail Investors' Decision-Making: Evidence From a Choice Experiment. (2019)
10. Gutsche, Gunnar & Ziegler, Andreas, 2019. "Which private investors are willing to pay for sustainable investments? Empirical evidence from stated choice experiments," (2019)

CONCLUDING REMARKS FROM THE INDUSTRY

The pandemic brings to light both the importance of people planning for financial uncertainty and the importance of responsible investing. It's time to make responsible investing simple, relevant and accessible to everyone.

As investment providers, we need to be clear in our definitions and transparent in the measurement of intention and impact. And, we need to demonstrate that it's absolutely possible to invest responsibly without sacrificing returns. It means considering how to engage the wide-ranging levels of interest and knowledge. Some people will be sustainability conscious and keen to make a positive impact. Some merely want to avoid causing harm. And others may be interested only in returns and risk management. Regardless of the key interest, the integration of ESG factors into investments is crucial in helping to optimise performance over the long term.

By bringing the different approaches to life, we can engage more people in their investments. How many realise the potential of stewardship to influence positive change? Or, how an impact fund can drive positive outcomes for investors and wider society?

At Aberdeen Standard Investments, we regularly communicate on how we invest responsibly. That includes the ESG integration that's been an integral part of our decision-making process for almost 30 years. It's our engagement in over 1,000 company meetings a year and our active approach to voting analysis on the issues that matter. In addition, it's explaining the activity and performance of the range of thematic funds we offer, from ethical to impact. **It's all part of our vision to invest for a better future. To make a difference for our clients, society and the wider world – while also delivering financial returns. The impact of Covid-19 makes this goal even more important. Now, more than ever, we need to work together for a more sustainable future.**

The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.United Kingdom (UK): Aberdeen Standard Fund Managers Limited, registered in England and Wales (740118) at Bow Bells House, 1 Bread Street, London, EC4M 9HH. Authorised and regulated by the Financial Conduct Authority in the UK.

Euan Stirling, Global Head of Stewardship and ESG Investment, Aberdeen Standard Investments

Aberdeen Standard Investments

CONCLUDING REMARKS FROM THE INDUSTRY

We're surprised this report concludes that many private investors don't understand what sustainable investment is and are not informed about how many of these strategies have outperformed their conventional peers over long time periods preceding the Covid-19 pandemic. We will continue our efforts to be clear about how our sustainable investment funds work and the companies they are invested in, as well as educating advisers and investors about sustainable investment.

Investors are keen to know precisely what impact their investments are having. Simplistic commentary about investment returns is no longer enough. Clients increasingly want to see alignment with decarbonisation, health outcomes and meeting diversity targets. Alongside enquiries about how much an investment has delivered, clients will ask, "What impact have these investments had on people and the planet?"

Measuring impact is a challenging and evolving area, but any asset manager seeking to promote its sustainable credentials has to be committed to developing an appropriate framework. They will therefore be better placed to satisfy increasing demand from clients who want to quantify the impact their investments are having on the world we live in.

Liontrust believes many of the changes emerging from the Covid-19 crisis focus on doing things better and taking a longer-term view. Future success for companies will be determined by the products and services they provide, as well as how they're managed, With this in mind, our view is that the crisis will result in major changes to how society behaves and this should support and accelerate some of the trends and themes integral to sustainability.

The good news is capitalism is adaptive by nature. Companies that successfully deliver solutions to the challenges of the pandemic, climate emergency and the #BlackLivesMatter movement will prosper. Those wedded to the old ways will struggle. **Over the coming years, sustainable investing will continue to lead in finding and backing companies that make our world cleaner, healthier, safer and fairer, and recent events have only served to accelerate these trends. Past performance is not a guide to future performance.**

This article should not be construed as advice for investment. Do remember that the value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

Mike Appleby, Investment Manager, Liontrust Sustainable Investment Team

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