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SUSTAINABLE INVESTMENT: MATCHING STRATEGIES TO INVESTORS' GOALS

Volume II

OXFORDRisk

CONTENTS

INTRODUCTION. GETTING GRANULAR WITH GOALS FOR GOOD

SUSTAINABLE INVESTMENT: MATCHING STRATEGIES TO INVESTORS' GOALS

Volume II

It is well understood that individuals' investment goals sit along a spectrum. Those goals are well-mapped, and well-catered for.

It is not always so clear that individuals' sustainable goals also sit along a spectrum encompassing:

- full-on philanthropy
- focused smaller-company impact projects
- active ownership via portfolios which integrate environmental, social and governance (ESG)-related considerations and engagement activity
- strategies which more explicitly emphasize the achievement of positive societal and environmental outcomes
- the exclusion of parts of the investment universe in order to reflect values

It is often overlooked altogether that sustainable objectives can be a subset of, not separate from, investment goals. Bringing about an increase in sustainable-investment action relies on raising awareness that sustainability objectives can be met with investments, and improving clarity over which investment goals – if any – need to be compromised to do so.

All investment goals involve trade-offs. Beyond the headline trade-off between risk and return lie considerations of diversification, liquidity, short-term volatility, and emotional comfort. Sustainable objectives add an extra dimension to this calculation.

Just as some individuals may prefer philanthropy (where no financial return is implied), and others favor a greater sustainable focus in corporate decisions, different investors will be motivated by different trade-offs. Where one investor will pursue only financial returns, others will put societal outcomes on an equal footing to (or even ahead of) financial returns.

There are non-monetary opportunity costs too. Given the opportunity to reflect sustainable values, plenty of investors are keen to do so, but they are wary of the research costs of finding the best-fitting solution for them. This can place the sustainable investment manager in the position of a democratic representative – hired not only as a 'vote' for a desired change in the world, but also as a tool for bringing it about via engagement with the companies being voted for – to ensure that promises of sustainable outcomes are being kept.

Understanding these motivations is key to encouraging investment in the first place. If sustainable investments already bore all the hallmarks of their non-sustainable alternatives, there would be no need for a conscious effort to promote them to those with specifically sustainable values.

Doing good can be difficult. Knowing what sort of good you want to do is not enough; you need to know how to do it too.

Some sustainable investors are driven by a desire which is strong enough to meet these demands and convert their good intentions into investment actions. Most, however, have the willing, and the financial resources, but need help with the research.

Where there are a lot of options, there is a lot of noise. It can be hard to make sure the right messages are heard by the people that want to hear them.

We know that sustainable investment does not happen by accident: there are gaps, first, between interest in the idea and awareness of options for converting that interest into investment, and, secondly, between this awareness and actions. The options need to speak clearly to their interested audiences, but what exactly do those audiences want to hear?

It depends who you ask.

This paper is not about how investments should meet different goals, but about what type of investments different investors want, and how to raise awareness of the fact they exist.

The most reliable differences in preferences found in our **previous research**[1] were replicated here in this new research.

The major attitudinal factors that separate investors are:

IMPACT DESIRE

The degree to which investors want to **make a positive difference** and have a social impact at all; and

IMPACT TRADE-OFF

The degree to which investors are **willing to make trade-offs to bring about positive societal and environmental outcomes**, for example being willing to accept greater risk, or to endure emotional discomfort through exposure to more short-term volatility.

Our previous research found six clusters of personality dimensions that predict attitudes to social investment far more strongly and precisely than demographics.

This latest research takes these findings a few steps further, showing how a more refined understanding of underlying attitudes is best matched to solutions and the narratives that surround them. Beneath a shared interest lies a matrix of motivations.

There is already sufficient underlying interest. For sustainable investment to grow, it needs an increase in general awareness, and a clear path from there to the sort of suitable solution that answers the questions a given investor is asking. While potential sustainable investors divide into statistical groups, active sustainable investors are individuals. For each one, having a range of available options is less important than having a single option which addresses their goals.

Behavioral and attitudinal profiling, such as that which forms the basis of this paper, is a bridge between the two: an insight into both the general attitudes to sustainable investing that guide product creation and the specific messages that resonate best with each buyer. It is the key to personalizing both a portfolio and the narrative that reassures the owner they have made the right call.

Some investment solutions are easier to personalize than others, depending on the scope to make bespoke changes to a portfolio. It will be easier to tailor a portfolio to specific social concerns for a wealthy individual than to modify portfolios which need to serve the requirements of thousands of pension investors. However, even where it is difficult to personalize a portfolio itself, much can be achieved by communicating a narrative that resonates with the areas of social good investors are most interested in achieving.

1 https://www.newtonim.com/us-institutional/insights/articles/social-investment-matching-strategies-to-investors-goals-nimna/

PART 1.
OUTLINE OF RESEARCH

In this paper, we build on the findings of our previous research in using a new study of US and Canadian investors, which was commissioned in September 2019 from behavioral finance specialists Oxford Risk.

The US and Canadian samples each consisted of 1,000 individuals who were representative of the broad investor population (i.e. those over 18 with access to some investible wealth), and captured a broad spread of respondents by age, gender, geographic location, education, and wealth.

For example, the respondents:

- were divided 50/50 male and female
- ranged in age from 18 to over 90
- had household investible assets ranging from US$40k to over US$4m
- were spread across all regions of the country, and across rural, suburban, and urban areas.

The survey took each respondent approximately 15 minutes to complete, and, to ensure academically reliable findings, the questions were randomized for each individual, thus avoiding biases that often arise from question ordering.

The data was put through a battery of statistical analyses (including factor analysis, cluster analyses, and fully controlled multivariate regressions) to ensure findings were valid and robust. Both countries showed broadly similar results, though in this paper we focus on the US data.

OXFORD Risk

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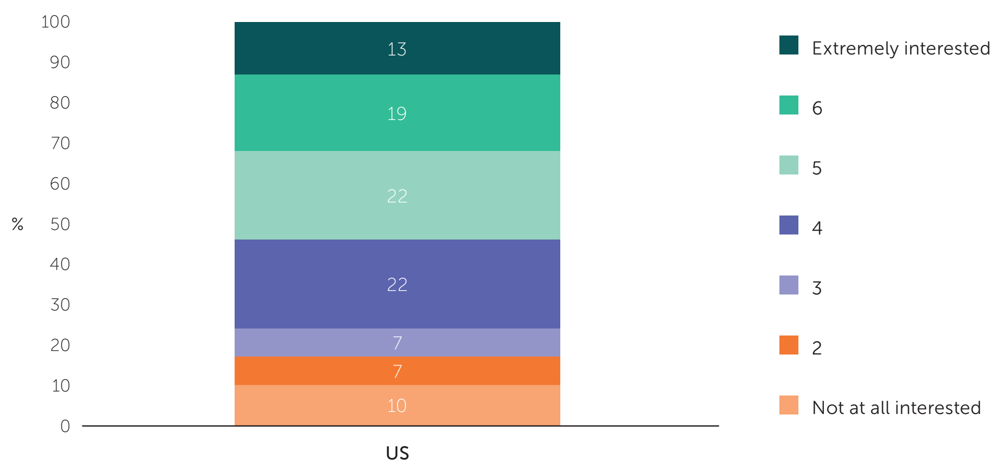
PART 2.
CREATING AND SUSTAINING INTEREST

Until a sustainable investment option becomes a standard option for an investor, active *interest* in doing good with one's investments must precede active *investment* in doing so.

Thankfully, interest is relatively high, and there is every reason to think it will continue to climb. Only 24% of US respondents in the survey are not at least moderately interested in sustainable investing.

Exhibit 1: How Interested in Sustainable Investing Are You?

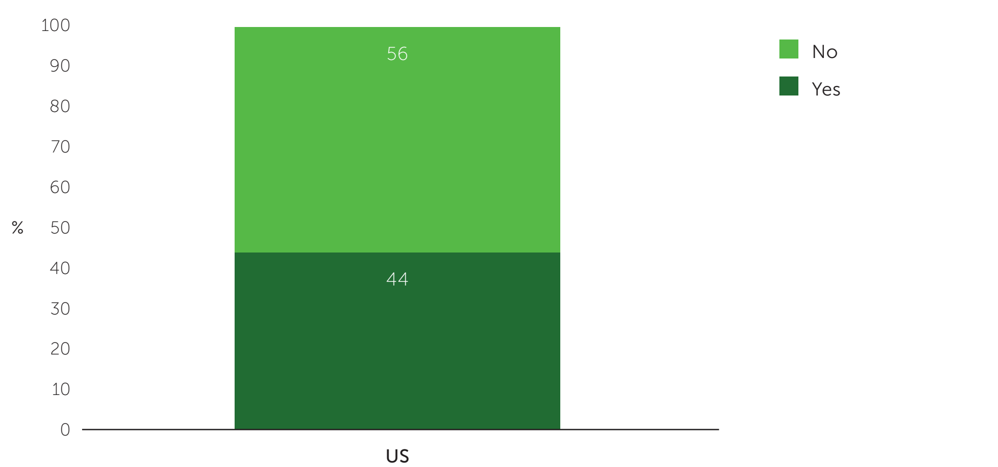


Source: Oxford Risk, January 2020.

Nonetheless, however much interest grows, it will not matter if no action is taken in turn. Strong interest alone is necessary, but insufficient. Awareness of sustainable-investment options is also needed and awareness is still relatively low. Only 44% of respondents claim to know what sustainable investing is.

of respondents claim to know what sustainable investing is

Exhibit 2: Do You Know What Sustainable Investing Is?

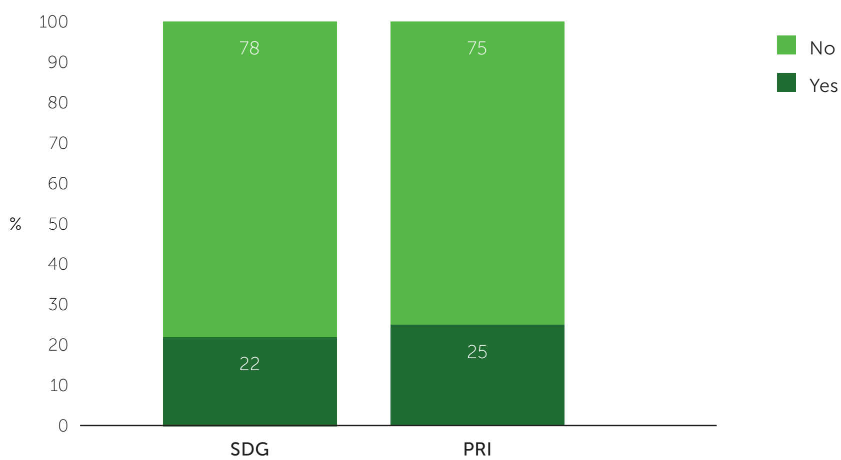


Source: Oxford Risk, January 2020.

For want of knowing that there is a solution that meets their specific goals, and being able to access it easily, many potential investors fall into the interest-awareness gap. Their inclination to discover solutions is rarely as strong as the interest that inspired them to look at the idea of sustainable investment in the first place.

This is true even for the more prominent frameworks of sustainable goals. As Exhibit 3 shows, familiarity with the UN Sustainable Development Goals framework, for example, is low. However, this does not mean people are not interested in the goals, nor that they do not have investments that they would be willing to transfer to options supporting those goals. There is a correlation between those that have heard of the goals and those that score highly on impact trade-off (i.e. that actively want to feel something is being given up in pursuit of sustainable goals).

Exhibit 3:
Are You Familiar With the UN Sustainable Development Goals (SDG) and the UN Principles For Responsible Investment (PRI)?



Source: Oxford Risk, January 2020.

This low knowledge is not reflected in a lack of interest in social causes; far from it. Only 16% of respondents support no charitable, social, or religious causes. Where support does exist, it is often expressed in giving money away without any expectation of return.

Instead, lack of knowledge is attributable to a lack of awareness of the institutions that exist to support sustainable investing, and of the possibility of doing good through investment choices. Even when asked directly, only 38% of respondents said they were aware of the possibility of accomplishing social goals with their investible assets.

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of respondents said they were aware of the possibility of accomplishing social goals with their investible assets

> "The jumble of terminology for the concept as a whole hinders the construction of an enticing, investible narrative."

Bridging the Gap

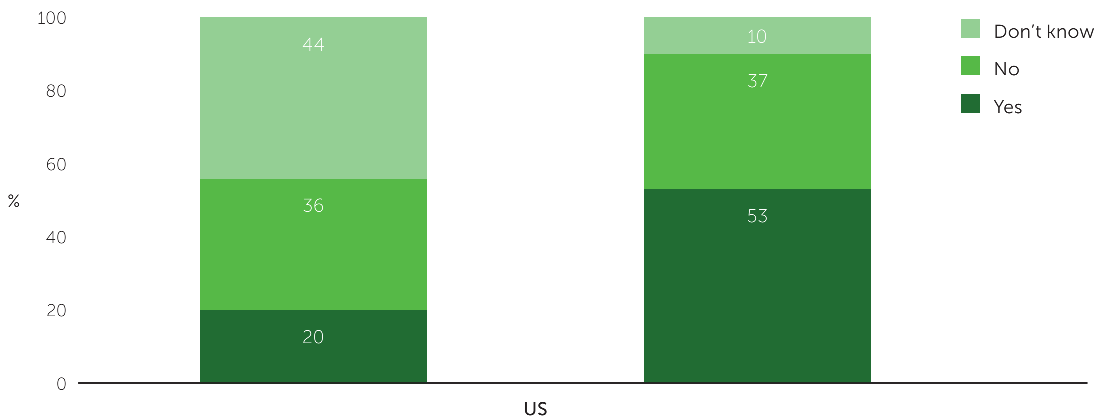
Awareness of sustainable investing in general is crucial to inspiring investment in any of its specific varieties. Knowing something is available can get people browsing. Finding something that speaks to them can get people buying.

Even in the forced-choice environment of self-invested pensions (be they corporate or personal), where investors have to do at least some browsing, only 20% of US investors were aware they had a sustainable-investing option. Of the 20%, 53% had chosen to invest in it.

Exhibit 4:

If You Have a Pension Can You Invest in Sustainable Fund Options?

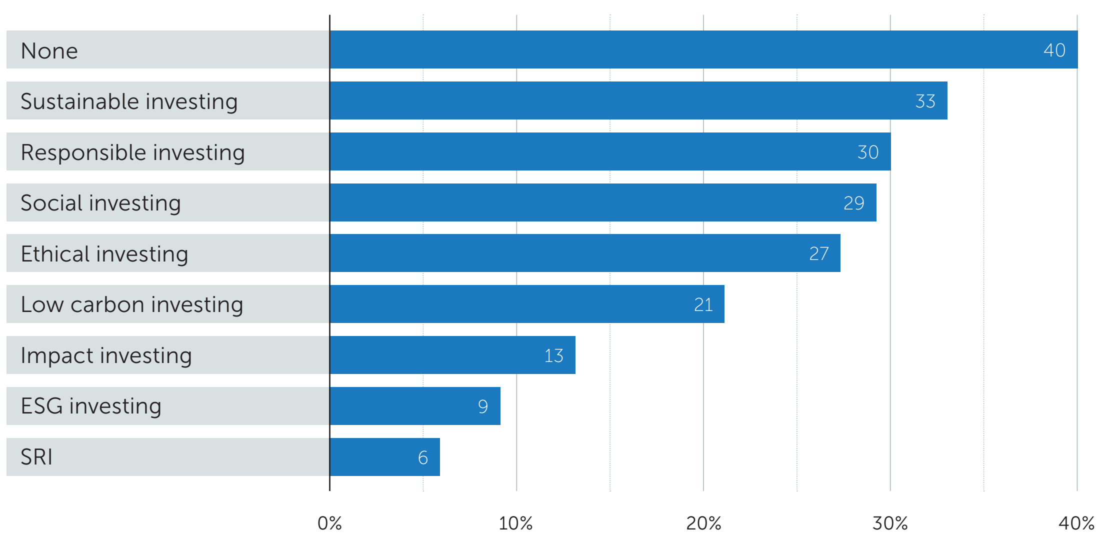
Do You Currently Invest in That Option(s)?



Source: Oxford Risk, January 2020.

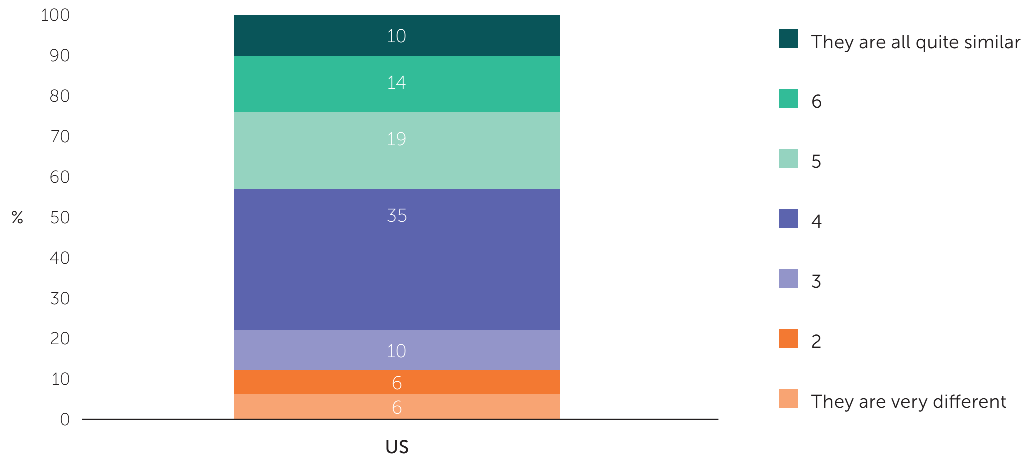
Part of the awareness challenge is that sustainable investment has yet to find its voice. In fact, it has yet to even find its name. The jumble of terminology for the concept as a whole, as well as its constituent parts, hinders the construction of an enticing, investible narrative.

Exhibit 5: Which of the Following Terms Are You Familiar With?



Source: Oxford Risk, January 2020.

Exhibit 6: To What Extent Do These Reflect Distinct Ways of Investing?



Source: Oxford Risk, January 2020.

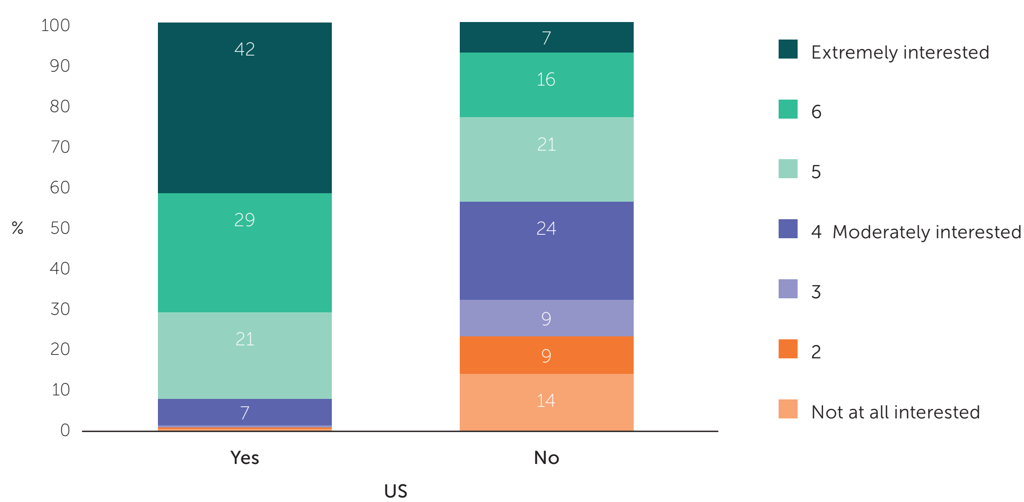
> "Investors do not buy products, they buy stories. They would rather not have to write the stories too: they are paying for someone to do their homework, not set it."

Investors do not buy products, they buy stories. They would rather not have to write the stories too: they are paying for someone to do their homework, not set it.

The good news is that when the homework is done – either personally, or by a professional delegate – investment need not be too far behind. The gap between interest and awareness is bridged not with a jumble of jargon, but with an understanding of what is personally important, and a precise means of supporting it.

The biggest jump in interest comes once someone is over the initial hurdle of making their first investment, however that happens. Reinforcing a finding from the previous research, those that have invested before have a much stronger interest than those yet to do so.

Exhibit 7: Interest in Sustainable Investing Depending on Previous Investment



Source: Oxford Risk, January 2020.

PART 3.
SIMPLE AND SPECIFIC: THE SECRETS TO SELF-SUSTAINING SOLUTIONS

Personality Dimensions: Who Are We Talking To?

Overview

Our previous research identified six clusters of personality tendencies which together provide insight into what sustainable-investment messages are likely to resonate best with each given group.

The major attitudinal factors on which people in these clusters differ are:

- **Impact desire** – How strongly an investor wants to have an impact at all, and wants to make a positive difference through their investments
- **Impact trade-off** – The degree to which they will trade off another investment goal (e.g. returns, liquidity) for social good. This is the most salient of the factors that distinguishes the groups.

Precisely what investors are willing to trade off is nuanced, and depends on where they sit on the spectrum of social and wider investment goals. At one extreme, philanthropists are willing to trade off just about everything, while, further along the spectrum, increased exposure to short-term volatility is likely to be a more acceptable compromise than risking the final outcome.

For truly deep impact products, which may require investments in small-scale, illiquid, or high-risk ventures, this spectrum will help to identify which investors will be prepared to get involved at this end of the investment continuum at all. For more traditional investment portfolios of publicly quoted equities which focus on ESG and sustainability considerations, the long-term risk-return profile may be no different from non-sustainable investments. The trade-off scale will identify those investors who, because of their desire to do social good, may be prepared to commit to sustainable investments for longer, or to better withstand the emotional ups and downs of asset prices in the knowledge that they are contributing to social good.

Overall, there are some investors who are unlikely to be that interested right now, some who would be if they were more aware, and some who are highly interested. The latter group is split between those who are actively keen to make trade-offs to do good, and those who would rather not.

“There are some investors who are unlikely to be that interested right now, some who would be if they were more aware, and some who are highly interested.”

The clusters were determined by attitudes to sustainable investment as a whole.

With regard to specific goals, we found that:

- there was little pattern to the specific causes that most influence potential investors
- there is a very strong tendency for individuals to either support all causes or none
- those who believe in doing social good will be inclined to believe all social causes or development goals are important, while those who are not will be relatively unconcerned about all causes and goals.

These findings are reinforced by our latest research. However, additional analysis has also revealed new insights. As well as the dimensions that determined the original clusters, in this new work we:

- uncovered an extra dimension – charity orientation, which captures how much people prefer to donate, rather than invest, to do social good
- enhanced our understanding of the key impact-desire dimension, establishing that it measures not only investors’ desire to reflect their social preferences in their investment portfolios, but also their desire for their asset managers to engage with investee companies to take action on these preferences.

“Picking companies is only half of the job that sustainable investors hire asset managers to do. They also want those managers to engage with the companies in which they are invested.”

Active Investment as Representative Democracy

This last finding was very revealing. We had anticipated that investors would differ from each other in their desire for management engagement, and therefore that this would result in a separate attitudinal dimension. However, attitudes to ‘engagement’ were inseparable from impact desire. Investors who scored high on the latter also scored high on the former.

This new finding underscores the fact that picking companies is only half of the job that sustainable investors hire asset managers to do. They also want those managers to engage with the companies in which they are invested – to collaborate on sustainability issues, and escalate their engagement if companies fail to change unsustainable practices. This is a key finding for active investment managers. Whether a company keeps its promises is not a criterion for inclusion in an index, so this is an area where active managers have the leverage to influence outcomes well beyond that of passive funds.

This can be compared to a representative democracy: by investing sustainably, people are voting for the sort of change they want to see in the world, and they are also voting for their representative (in this case an investment manager) to fight to make that change happen.

Positive answers to engagement items are also correlated with investors’ requirements for both evidence and quick action. This suggests a profile of someone who wants to delegate quickly when the evidence indicates it is the smart thing to do.

There is also an additional, specific, and stronger attitude to engagement, which stands out as distinct: *I would prefer to actively engage with the management of unsustainable companies than to invest only in sustainable companies*. While all those with high *impact desire* are keen on management engagement, the wish to engage but not divest is more closely related to those with high *impact trade-off*, i.e. those willing to make financial trade-offs to more effectively do social good. These investors show a keen preference for engaging with companies in a bid to improve them (rather than ignoring or disinvesting from them).

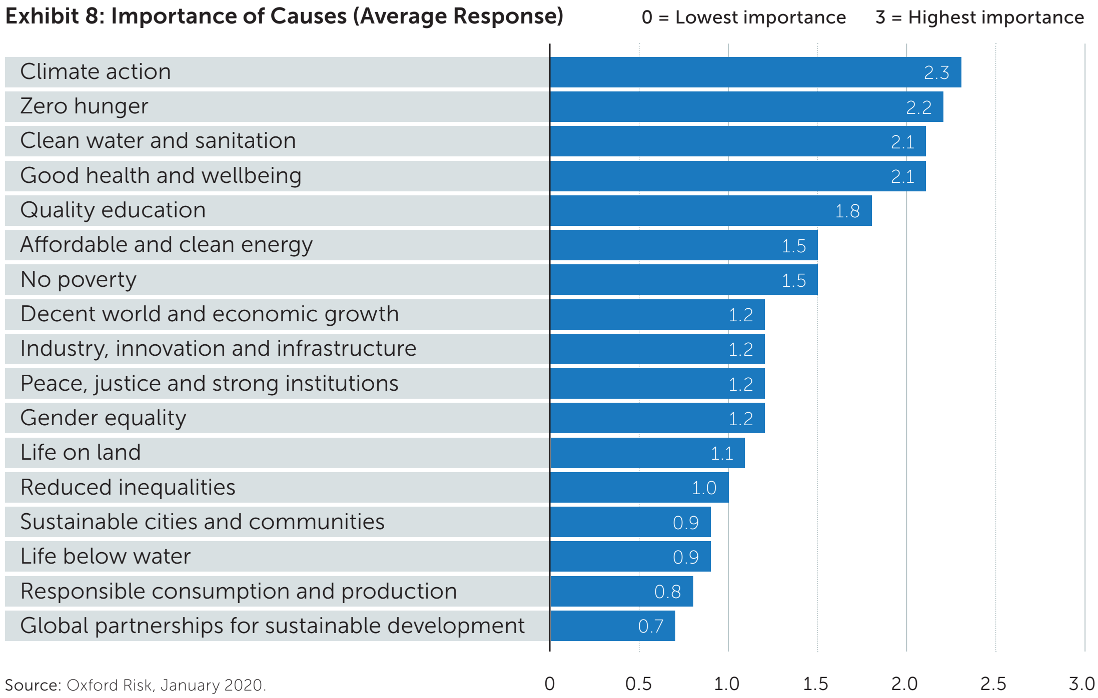
Who Cares? And What Do They Care About?

Narrative Nuances

To get people to buy into sustainable investments, narrative is vital – telling them a story about the social good that will ensue, and thereby the emotional returns they will get, which resonates with them personally.

We looked at attitudes to the 17 UN Sustainable Development Goals. This shows which causes most resonate with people *(on average)*.

Exhibit 8: Importance of Causes (Average Response)



Source: Oxford Risk, January 2020.

> “In general if someone thinks one form of social good is important, they are quite likely to be concerned for all the others too.”

Goals considered most universally important tend to be those reflecting a desire for equality of opportunity (clean water, good health, zero hunger, affordable clean energy, and quality education) rather than equality of outcome (gender and income inequality).

There's an important nuance to these numbers, which is of relevance to messages that speak to these concerns.

Labels alone can be fairly uninformative, and previous research therefore tested the effects of adding descriptions. Where the cause was already popular (e.g. good health, quality education), a description diluted the perceived importance. Where the meaning of the label was less clear (e.g. life on land, industry, innovation and infrastructure), a description boosted it.

As we found in our previous research, respondents tend to support all causes or none of them. This is not to say people do not have interests in particular causes, but by and large these are quite personal and idiosyncratic, and in general if someone thinks one form of social good is important, they are quite likely to be concerned for all the others too. In short, they are concerned with doing good for the world in some form, or they are not.

However, looking at overall averages and individual causes hides helpful insights, both in terms of the differences within causes, and in terms of which causes tend to cluster together among people's concerns. While the 'all or nothing' finding remains dominant, our new research has revealed three distinct clusters of underlying attitudes to the development-goal causes which are concealed when looking only at high-level averages.

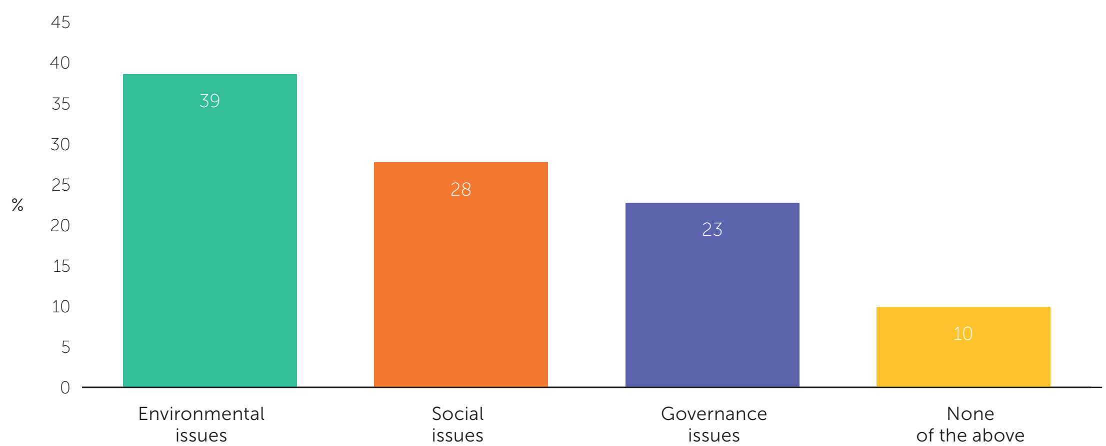
FEWER THAN 9%
of US investors are familiar with the term 'ESG'

Clusters of Cause Support: ESG Revisited

The environmental-social-governance (ESG) terminology is well-established and well-understood within the investment industry. However, investor awareness of the terms remains low (with fewer than 9% of US investors being familiar with the term 'ESG'), especially in distinguishing between the three elements. This is an issue.

There is actually an inverse relationship between what people want and what the investment industry offers. The order of investor interest is indeed E-S-G, but the industry's focus and priorities tends to be ordered G-S-E. This is understandable – the 'G' (governance) is easier to establish and measure – but efforts to attract investors are hindered by both the order and the lumping together of the three components, especially, as we will see below, when it comes to climate change.

Exhibit 9: Overall, Are You More Concerned About



Source: Oxford Risk, January 2020.

This lumping together could also be missing a trick. While not specifically focusing on this area, the analysis of the support for the UN Sustainable Development Goals (SDGs) revealed three clear groups of people, each of which tends to have a greater concern for a particular cluster of social goals. Two of the highest-ranked SDGs were valued by all three groups *(clean water and sanitation* and *good health and wellbeing)*, but beyond these the three themes map neatly to the investment industry's broad environmental, social and governance terminology.

This finding suggests that speaking to all goals in a given cluster will strengthen a message, rather than diluting it.

> "Analysis of the support for the UN Sustainable Development Goals revealed three clear groups of people, each of which tends to have a greater concern for a particular cluster of social goals."

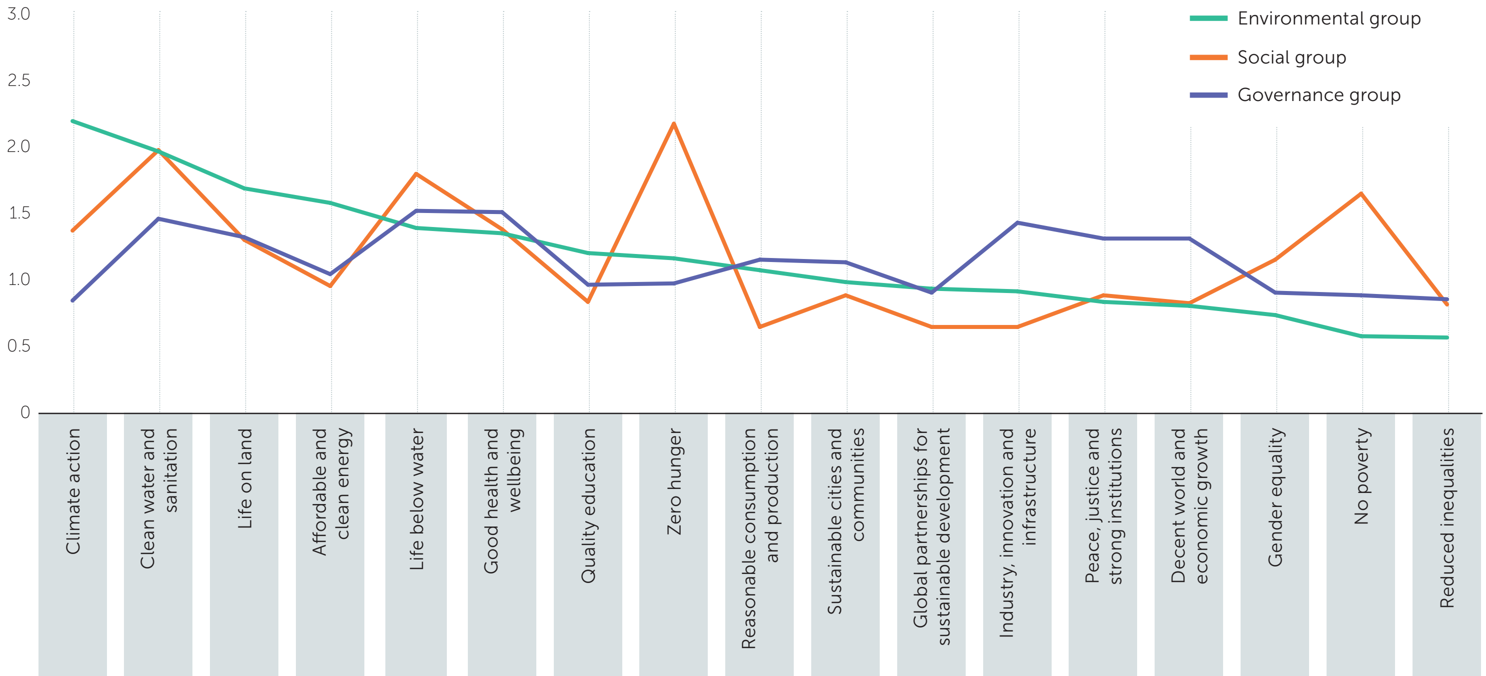
Resonance of UN Sustainable Development Goals With the Three Groups

	Environmental	Social	Governance
Interested in...	**Environmental issues**	**Other people**	**Institutions and efficiency**
Most resonant UN Sustainable Development Goals	a) Climate action b) Clean water and sanitation c) Life on land d) Affordable and clean energy e) Life below water	a) Zero hunger b) Good health and wellbeing c) No poverty	a) Quality education b) Decent world and economic growth c) Justice and strong institutions d) Industry, innovation and infrastructure
Least resonant UN Sustainable Development Goals	a) Reduced inequalities b) No poverty c) Gender equality	a) Global partnerships for sustainable development b) Industry, innovation and infrastructure c) Responsible consumption and production	Climate action
Relative interest in sustainable investing	Highest	Middle *(closer to environmental)*	Lowest
Key profile factors	• Strong focus on global warming • Lowest charity orientation *(prefer to do good through investing)* • Tend to be younger and more female	• Similar to environmental group, but less focus on global warming and lower risk tolerance • Tend to be younger and more female	• More money-focused • Disinclined to divest • Think global warming is exaggerated • Tend to be older and more male

The three roughly equally sized groups do not differ much in their overall interest in sustainable investing, but, as Exhibit 10 shows, they do differ in what they would like to see their investments achieve. Demographically, the governance group stands out for containing different types of people, whereas the other groups predominantly differ only in their interests.

Exhibit 10: Importance of Causes

0 = Lowest importance 3 = Highest importance



Source: Oxford Risk, January 2020.

The differences should not be interpreted as indicating that people in each group do not care about other causes, but rather that certain outcomes resonate more strongly than others, relative to the population average. For example, all groups think that health and education are important, but they differ on how they prioritize other goals.

Differences Within Cause Support: Climate Action

Averages are key to understanding the general concerns and high-level trends which should guide broad areas of focus for investment managers. However, messages are ultimately read by individuals, and averages can hide idiosyncratic variations.

This is especially true of concern for climate change.

Concern for 'climate action' is bimodal. Hidden under its headline importance are two very different groups: those for whom it is overwhelmingly the most important, and those who think it is overblown. It has the highest proportion who give it the highest importance, and the lowest proportion who put it in the middle group.

Those who rate it as the most important fall into the 'environmental' group. They are likely to respond more strongly to messages in support of climate action than anything else… although those same messages will alienate others.

PART 4.
CONCLUSION

People care about sustainable investing. However, interest in the intentions outstrips awareness of the investment options. This lack of awareness means action is less likely to take the form of authoritative asset-management solutions, and more likely to be represented in either 'DIY' approaches or indefinite delay.

Combatting this requires clearer messages which are precisely targeted at the groups of people and the clusters of causes that they care about. Sustainable investing is about satisfying a collection of inherently niche desires. To be done well, it calls for research which can match investors to strategies (having the answer come to the investor, not the other way around).

In the eyes of many investors, the role of the sustainable fund manager is as much a representative of the change they want to see as a constructor of a portfolio.

PART 5.
KEY FINDINGS

1. **Interest**

   Interest in reflecting sustainable values is high, or at least high enough. However, high interest alone is not much good without awareness of appealing investment options into which to channel it. Interest among those who have invested in sustainable investments previously is markedly higher than among those who have not.

2. **Awareness**

   Awareness of how to reflect sustainable values via investment is low. This challenge is exacerbated by the confusing jumble of terms used to describe the options as a whole, and by the lumping together of audiences or messages that are better off kept apart.

3. **Engagement**

   Investors hire investment managers to represent their desires. They vote for the changes they want to see in the world, and appoint a delegate to help bring those changes about. In the eyes of many investors, investment managers have a duty to influence the management of companies, not just invest in their securities.

4. **'ESG' Is a Collection, Not a Union**

   Investor interest in the components of ESG runs in the opposite direction to industry focus. Each element also appeals to a different type of investor. Merging the messages dilutes their influence.

5. **Climate Change**

   Of all causes, climate action receives the highest support from the highest number of individuals. However, hidden under its headline importance are two very different groups: those for whom it is overwhelmingly the most important, and those who think it is overblown.

FOR MORE INFORMATION

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Further Reading

1

2

1 https://www.newtonim.com/us-institutional/insights/articles/responsible-investment-policies-and-principles-nimna/

2 https://www.newtonim.com/us-institutional/insights/articles/active-ownership-does-it-work-nimna/

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