

ESG Survey: Adoption of Responsible Investing

A Survey By Clearwater Analytics, May 2022

With the topic of environmental, social, and governance (ESG) investing in the headlines and on the minds of global investors, we wanted to get a better understanding of how institutional asset owners and managers view, adopt, and monitor ESG investing initiatives. We polled nearly 200 investors representing over \$12 trillion in AUM to gain insights into their adoption and progress.

ESG Adopted by 55% of Investors Surveyed

When asked whether they had an ESG investing initiative or policy in place, **only 55% of survey participants responded affirmatively**. This is consistent with what we've learned through our conversations with global investment teams. Among the institutional investor types surveyed, **asset managers led the way with two-thirds having an initiative, while asset owners were at about half**.

Of those that did not have an ESG investing initiative, **38% cited lack of management interest, 22% said there is a lack of credible data to utilize, and just 11% indicated they believe ESG investing results in lower returns**. On the last data point, this was one of the original arguments against ESG investing as it came into the investment community years ago. It appears that sentiment is waning as investment markets evolve and ESG becomes more directly investible, e.g., away from simple exclusion into active market segments.

Not surprisingly, **nearly 60% of respondents said their boards and executive management often drive ESG initiatives and related compliance. Only 20% indicated the investment team drove ESG initiatives**, which was a distant but important second place. **Another 10% said compliance with ESG policies falls on finance and accounting**.

Early on, the focus of ESG investing was public equities. Our poll showed that is no longer the case. ESG consideration for **public equities and public bonds was strongest at over 75% each**. However, ESG is now a factor in **private markets including debt, real estate, infrastructure, and even private equity**, with all in the **60% range. Private equity surprised us the most there, and it was on the low end of that range at 54%**.

ESG Data and Process Challenges

We recognize the data and process challenges associated with ESG and asked a number of questions on the topic. Getting good ESG data is a widely known challenge. Our survey found **44% of the investors use multiple data providers, some create or enhance the data set with their own ratings at 24%, and homogenizing those disparate sources is a resulting challenge cited by 36% of the respondents**.

Notably, **asset managers tended to focus on MSCI and Sustainalytics data with 90% and 70% citing them respectively**, while asset owners tended to use more data vendors. There were over a dozen data providers cited across all respondents. They included MSCI, Sustainalytics, S&P, Moody's, Refinitiv,

ESG Analytics AI, RIMES, Clarity AI, ISS, ESG Pro, InspireInsight, and Arabesque – and we know there are more.

Once investors receive ESG data, about 41% reported it ends up in a spreadsheet, as is true in much of finance. **Another 30% said they need to invest in technology solutions that can better handle ESG data**. Surprisingly, **50% reported that the data is fed into portfolio management systems** – we assume many investors are supplementing their process with those spreadsheets. On the output side, **reports on ESG investing are most commonly used by investors at 74%**, followed closely by those driving ESG initiatives – **the board/management at 69%**. Today, **regulatory and voluntary disclosures are still modest at 14 and 23% respectively**, but we are certain that will grow as we see actions by the EU on sustainable development goals (SDG) reporting and the SEC on new disclosures. Interestingly, **9% said they have no formal reporting**. Our assumption is that the initiative is currently more aspirational at those companies and they likely struggle with the data, operations, and reporting we've discussed in this report.

Regarding regulatory reporting requirements, we asked about the SEC's proposal to have public companies report on climate change matters. **About a third of respondents weren't aware of this proposal**. Of those that are aware, **46% said it would create significant compliance and reporting challenges**. Some responses were positive, with **23% believing it will drive capital deployment into green energy, and 31% saying it should even go further**.

Finally, we gave respondents an opportunity to provide any other thoughts on ESG. We received some interesting comments; some of which showed that ESG can be controversial. **There are investors who don't believe ESG is useful, and others who see it as important to how companies run their business**. One respondent stated, "Our ESG policy is to ignore ESG as it is contrary to our investment goals of safety, liquidity and yield," while another cited that the "G" in ESG is most important, stating, "If companies are governed for wisdom and virtue, rather than self-centeredness and greed, they will take their stewardship mandate seriously and the S and E will follow."

About Clearwater Analytics

The investment universe continues to grow in complexity. Incorporating ESG considerations into the portfolio management process requires data aggregation and reporting which provides critical information to executives, investment, and compliance teams. Clearwater Analytics' platform is specifically designed to consume ESG data, match it to your investment portfolio, and seamlessly integrate it into daily web-based reporting. Our clients break free of spreadsheets and manual processes by leveraging the Clearwater platform to assess how their investments meet their ESG policy compliance and reporting. Schedule a meeting to see the solution in action with one of our ESG experts:

Speak to an Expert >

Detailed Survey Data

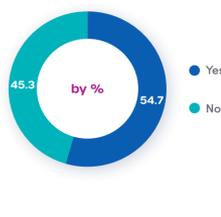
1. What is your business type?



2. What is your total AUM?



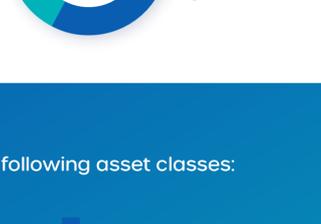
3. Does your company have an ESG initiative and/or investment policy (e.g., Responsible Investment Policy) that is used by your investment team?



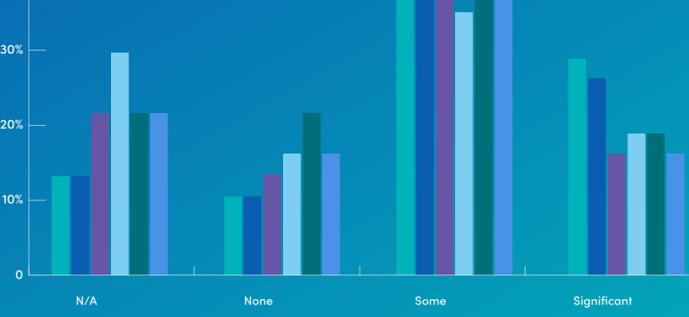
4. If your company does not have an ESG initiative and/or investment policy, which of the following describes why?



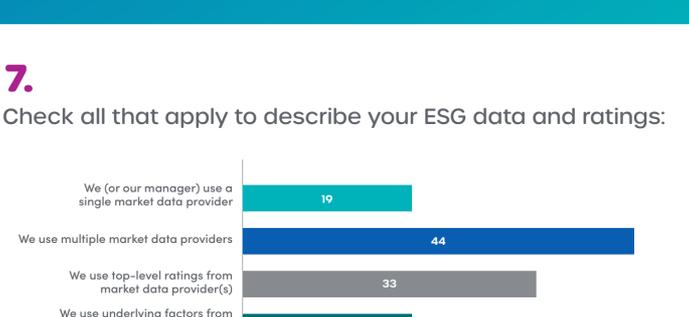
5. Who is responsible for your ESG/Responsible Investing Policy compliance?



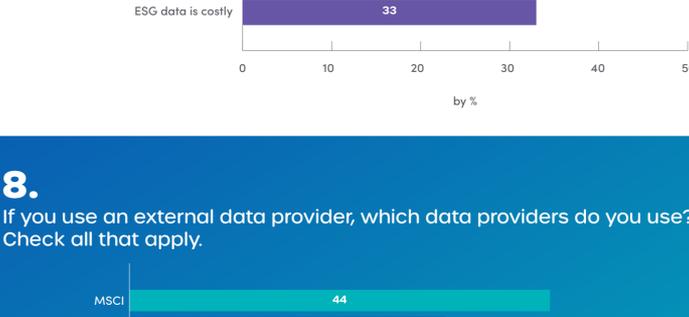
6. How much of a factor is ESG for the following asset classes:



7. Check all that apply to describe your ESG data and ratings:



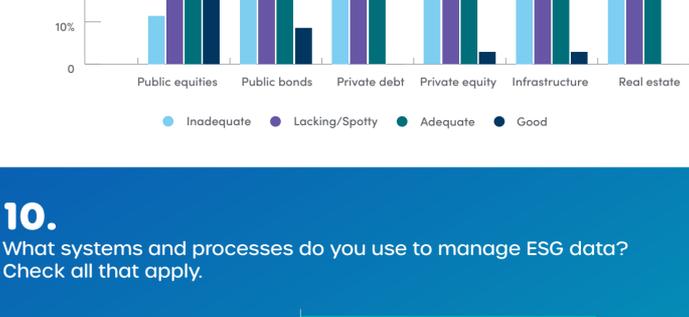
8. If you use an external data provider, which data providers do you use? Check all that apply.



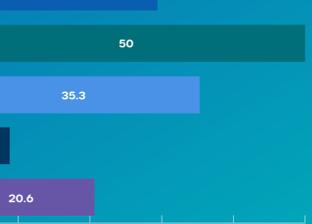
9. Please rate the quality and coverage of ESG market data for the following asset classes:



10. What systems and processes do you use to manage ESG data? Check all that apply.



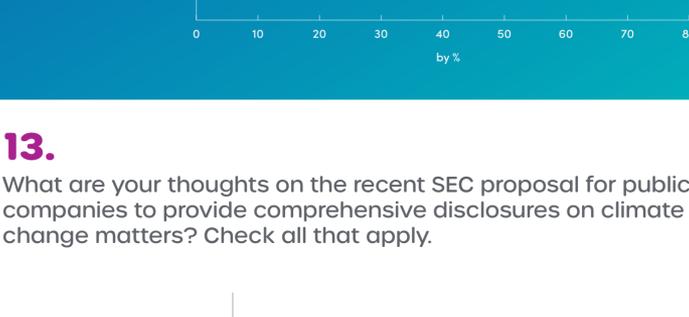
11. How frequently are you reporting on ESG/Responsible Investing?



12. Who consumes ESG/Responsible Investing reports? Check all that apply.



13. What are your thoughts on the recent SEC proposal for public companies to provide comprehensive disclosures on climate change matters? Check all that apply.



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