

U.S. Environmental, Social, and Governance Investing 2021

Aligning Investment Portfolios with ESG Considerations

OVERVIEW & METHODOLOGY

This report defines what constitutes an ESG investing framework and analyzes the various ways that asset managers, asset owners, and financial advisors are incorporating ESG into their investment decision-making from both a product and process standpoint. The report not only assesses the true demand for ESG strategies among retail and institutional clients, but also evaluates which elements of ESG matter most to both investor types. Additionally, it covers how asset owners and asset managers are addressing climate change, with many committing to transition their investment portfolios to net-zero carbon emissions by 2050 or sooner, in line with the Paris Agreement. Lastly, the report looks at the kinds of vehicles and channels that asset managers and financial advisors believe offer the biggest opportunities for adoption.

USE THIS REPORT TO

- Explore the various ways that asset managers, asset owners, and financial advisors are incorporating ESG into their investment decision-making from both a product and process standpoint
- Understand the size of the responsible investment universe and how it has grown over time
- Identify what ESG themes investors are prioritizing for ESG integration, active ownership, and product development
- Gain insights into the collaborative initiatives and resources used to guide net zero commitments
- Identify demand for ESG among retail investors and why some advisors are reluctant to discuss and offer ESG strategies
- Learn how institutional investors are incorporating ESG considerations into their investment policy statements

QUESTIONS ANSWERED

- How are asset managers, asset owners, and financial advisors incorporating ESG criteria into their investment decisions and what are the key motivations?
- What ESG issues are asset owners and asset managers prioritizing?
- How has the ESG product landscape evolved, and which types of ESG-focused products are gaining flows?
- What is the true demand for responsible investing among retail and institutional investors?
- What actions are investors taking to address climate change and meet their commitments to net zero?

PRODUCT DETAILS

Included with Purchase

- Digital report in PDF format
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- Exhibits in Excel
- Key findings
- Analyst support
- Interactive Report Dashboards

Interactive Report Dashboards

Interact and explore select report data with Cerulli's visualization tool.

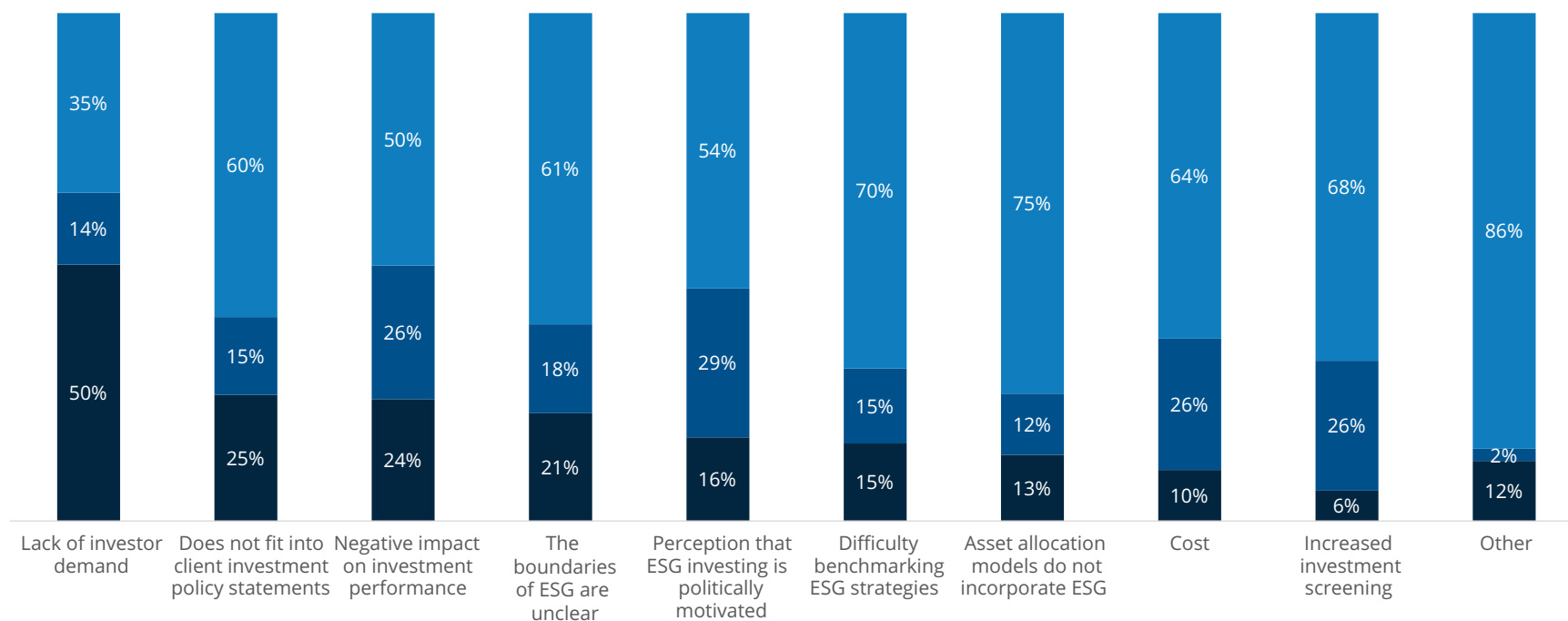
- **Asset Managers' vs. Asset Owners' Perspectives:** Compare responses from asset managers and asset owners on topics including methods for considering ESG issues, approaches to active ownership, criteria for exclusionary screening, themes of impact investments, climate action plans, and factors driving their decision to start using ESG criteria in their investment analysis.
- **Generational Demand Comparison:** Evaluate financial advisors' anticipated demand for ESG strategies among different generations alongside retail investors' preferences for investing in companies that have a positive environmental or social impact.
- **ESG Theme Comparison:** Analyze asset managers' top-20 ESG themes for active ownership activities, those incorporated into the ESG integration process, and those addressed for product development, grouped by ESG category.
- **ESG Assets and User Projections:** Review Cerulli's historical ESG assets by asset type and project ESG assets using customizable growth rates for mutual funds and separate accounts.

Exhibit 6.09

Financial Advisors: Reasons Preventing Adopting ESG Strategies, 2021

Source: Cerulli Associates

■ Significant factor ■ Moderate factor ■ Not a factor



- Exactly half advisors polled identify lack of investor demand as a significant factor and another 14% say that it's a moderate factor.
- Approximately one-quarter of participants cite client investment policy statements (25%) and performance concerns (24%) as significant factors preventing advisors from adopting ESG strategies for their clients.

Key Implication: Hundreds of new ESG-focused products have come to market just withing the last few years. While there are several credible ESG product options available, advisors remain skeptical of asset managers marketing products under an ESG label or potentially overstating its sustainable performance. Advisors need the knowledge to be able to distinguish between greenwashing and truly intentional investment products. They also want evidence of performance and risk mitigation benefits. Cerulli recommends that asset managers provide evidence of ESG and impact benefits through reporting. Additionally, because both advisors and end-investors are concerned about giving up investment performance, measuring the risk and return benefits these products relative to traditional benchmarks will also be beneficial.

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