

U.S. Environmental, Social, and Governance Investing 2022

Social Issues Come to the Forefront

OVERVIEW & METHODOLOGY

This annual report defines what constitutes an environmental, social, and governance (ESG) investing framework and illuminates the various ways in which asset managers and asset owners are incorporating ESG into their investment decision-making from both a product and process standpoint.

The report also covers how asset managers and asset owners are taking social themes into consideration for product development, ESG integration, active ownership activities, and manager selection. 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 believe offer the biggest opportunities for adoption.

USE THIS REPORT TO

- Learn how asset managers and asset owners are responding to responsible investment plans amid recent political pressure
- Uncover how asset managers, advisors, and managed account sponsors are gearing up for the anticipated demand for ESG from younger generations
- Understand how the SEC is addressing ESG disclosure, and gain insight into industry sentiments on these types of proposals
- Evaluate the effects on asset managers' and investors' portfolios in light of current events that have been catalysts for increased prioritization of social considerations within asset managers' ESG integration processes, active ownership activities, and product development efforts

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, which types of ESG-focused products are gaining flows, and how is the market expected to grow?
- How is the regulatory landscape changing in the U.S.?
- What actions are investors taking to address climate change and meet their commitments to net zero?
- What is the true demand for responsible investing among retail and institutional investors?

PRODUCT DETAILS

Included with Purchase

- Digital report in PDF format
- Unlimited online firm-wide access
- 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.

Financial Advisor and Retail Investor Preference for ESG Investing: Evaluate financial advisors' reasons for using ESG strategies alongside retail investors' preferences for investing in companies that have a positive environmental or social impact.

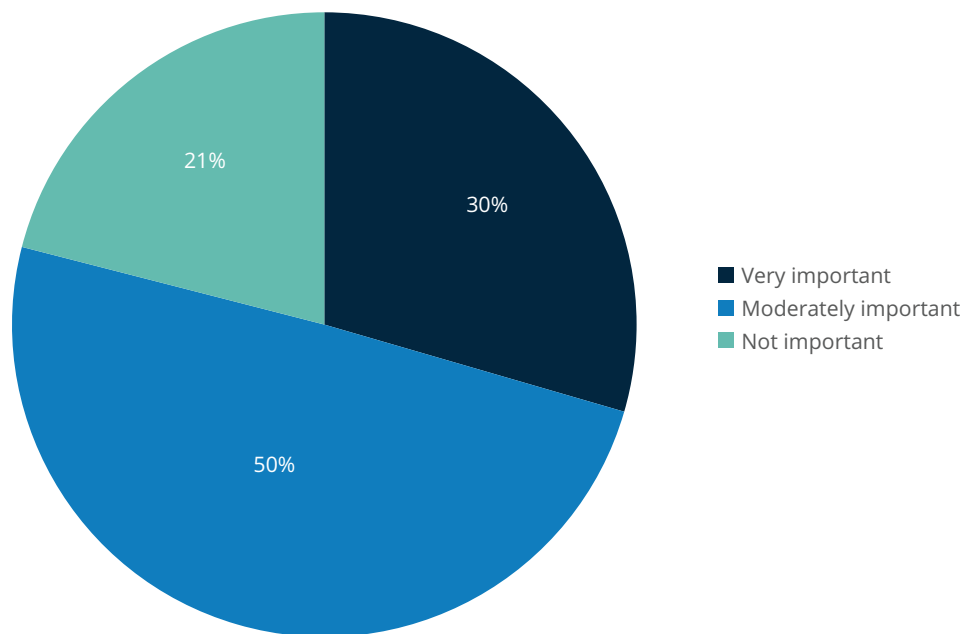
ESG Theme Comparison: Analyze asset managers' top-20 ESG themes for active ownership activities, those incorporated into the ESG integration process, and those addressed for product development, grouped by ESG category.

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, exchange-traded funds (ETFs), separate accounts, and commingled funds.

Exhibit 6.05

Asset Owners: Level of Importance Placed on Asset Managers Having ESG Capabilities, 2022

Source: Cerulli Associates | Analyst Note: N=200. Percentages may not sum to 100% due to rounding.



- The vast majority (80%) of institutions surveyed believe that it is at least moderately important for external asset managers to have ESG capabilities and integrate ESG considerations across its investment decisions.

Table of Contents: Expanded

Methodology 8

Key Terms Defined 9

Executive Summary 12

 Challenge Presented by the Perception That ESG Considerations Are Politically Motivated, 2022..... 12

 Views on Which Organizations Should Be Responsible for Setting ESG Standards and Product Definitions, 2022 13

 Asset Managers: Top-Five Social Themes for ESG Integration and Active Ownership, 2022 14

 Asset Managers: Top-Five Social Themes for Active Ownership, 2022 14

 Financial Advisors: Average Client Allocations to ESG/Sustainable Products, 2022 vs. 2024E 15

Report Authors 16

Chapter 1: State of the Environmental, Social, and Governance Market 17

 Summary..... 17

 Exhibit 1.01. Evolution of Responsible Investing, 2022 20

 i Exhibit 1.02. Asset Managers: Methods for Considering ESG Issues, 2022..... 21

 i Exhibit 1.03. Asset Managers: Factors Driving Decision to Start Using ESG Criteria in Investment Analysis, 2022..... 22

 Exhibit 1.04. Asset Managers: Challenges to Increasing Client Receptivity of ESG Issues, 2022 23

 Exhibit 1.05. Asset Managers: Internal Challenges to Incorporating ESG, 2022..... 24

 Exhibit 1.06. Asset Managers: Mention of ESG Consideration Approach in Investment Documents, 2022..... 25

 Exhibit 1.07. Sizing of Responsible Investment Universe: Mutual Funds and ETFs, 2Q 2022..... 26

 Exhibit 1.08. Sizing of Responsible Investment Universe: Separate Account and Commingled Pool Structures, 2Q 2022..... 27

 Exhibit 1.09. Sizing of Total Responsible Investment Universe, 2Q 2022 28

 i Exhibit 1.10. Growth of ESG Assets by Vehicle Type, 2012–2Q 2022 29

 Exhibit 1.11. Long-Term Mutual Fund and ETF Assets, 2015–2027E 30

Chapter 2: How Investors and Managers Address the “S” Themes of ESG in Their Portfolios and Organizations 35

<i>Summary</i>	35
<i>How Asset Managers Incorporate Social Considerations into ESG Integration and Active Ownership Processes</i>	38
Exhibit 2.01a. Asset Managers: Top-Five Social Themes for ESG Integration and Active Ownership, 2022	38
Exhibit 2.01b. Asset Managers: Top-Five Social Themes for Active Ownership, 2022	39
<i>Social Issues Slowly Gain Prominence in Product Lineups and Capital Allocations</i>	40
Exhibit 2.02.a. Asset Managers: Top-Five Social Themes for Overall Product Development, 2022	40
Exhibit 2.02.b. Asset Managers: Top-Five Social Themes for Impact Product Development, 2022	41
Exhibit 2.03. Asset Owners: Themes of Institutions’ Responsible Investments, 2022	42
Exhibit 2.04. Asset Owners: Top Social Themes Addressed in Investment Policy Statements, 2022	43
Exhibit 2.05. Asset Owners: Diverse Asset Manager Hiring Activity, 2022	44
Exhibit 2.06. Asset Owners: Actual Percentage of Total Assets Under Management Invested with Diverse Managers, 2022	44
<i>Efforts to Advance DE&I in the Workplace</i>	45
Exhibit 2.07. Asset Managers: Methods Used to Attract, Retain, and Promote Diversity, 2022	45
<i>Collaboration, Commitment, and Measurement of Progress of DEI Goals</i>	47
Exhibit 2.08. Asset Managers: Plans to Prepare a Securities and Exchange Commission (SEC) Diversity Assessment Report, 2022	47
Exhibit 2.09. Asset Managers: Signatories of the CFA Diversity, Equity, and Inclusion Code, 2022	48
Exhibit 2.10. Asset Owners: Signatories of the CFA Diversity, Equity, and Inclusion Code, 2022	48

Chapter 3: Investors’ Climate Action Goals and Plans 49

<i>Summary</i>	49
i Exhibit 3.01. Asset Managers: Pathways to Climate Change Mitigation, Adaptation, and Net Zero, 2022	51
i Exhibit 3.02. Asset Owners: Pathways to Climate Change Mitigation, Adaptation, and Net Zero, 2022	52
Exhibit 3.03. Asset Managers: Net-Zero Commitment Timeframe, 2022	53
Exhibit 3.04. Asset Managers: Net-Zero Stakeholder Pressure, 2022	54
Exhibit 3.05. Asset Owners: Net-Zero Stakeholder Pressure, 2022	55
Exhibit 3.06. Asset Managers: Collaborative Climate-Focused Engagement Activities, 2022	56
Exhibit 3.07. Asset Owners: Collaborative Climate-Focused Engagement Activities, 2022	57
Exhibit 3.08. Asset Managers: Initiatives and Resources Used to Guide Net-Zero Commitment, 2022	58
Exhibit 3.09. Asset Owners: Initiatives and Resources Used to Guide Net-Zero Commitment, 2022	59
Exhibit 3.10. Asset Managers: Current Use of Tools and Datasets for Climate-Related Risk Analysis, 2022	60
Exhibit 3.11. Asset Owners: Current Use of Tools and Datasets for Climate-Related Risk Analysis, 2022	61

Table of Contents

Exhibit 3.12. Asset Managers: Climate Risk Reporting Offered, 2022	62
Exhibit 3.13. Asset Owners: Climate Risk Reporting Requested, 2022	63
Exhibit 3.14. Asset Managers: Methods Used to Measure and Report Carbon Emissions, 2022	64
Exhibit 3.15. Asset Owners: Methods Used to Measure and Report Carbon Emissions, 2022	65
Exhibit 3.16. Asset Managers: Use of Sustainability-Standard-Setting Organizations for Data and Reporting Guidance, 2022	66
Exhibit 3.17. Asset Owners: Use of Sustainability Standard Setting Organizations for Data and Reporting Guidance, 2022	67
Exhibit 3.18. Asset Managers: Training Methods to Evaluate Climate Risk, 2022	68
Exhibit 3.19. Asset Owners: Training Methods to Evaluate Climate Risk, 2022	69
Exhibit 3.20. Asset Owners: Carbon Offset Providers Used, 2022	70
Chapter 4: Asset Managers' Product Development, ESG Integration, and Active Ownership Activities	71
<i>Summary</i>	71
Exhibit 4.01. Asset Managers: Level of Priority Placed on Incorporating ESG Criteria into Investment Products and Processes, 2017-2022	74
Exhibit 4.02. Asset Managers: ESG Product Development Initiatives by Asset Class, 2022	75
Exhibit 4.03. Asset Managers: Top-20 ESG Themes Addressed Through Product Development, 2022	76
Exhibit 4.04. Asset Managers: Criteria for Exclusionary Screening, 2022	77
Exhibit 4.05. Asset Managers: Impact Investment Asset Classes, 2022	78
Exhibit 4.06. Asset Managers: Themes of Impact Investment Strategies Offered, 2022	79
Exhibit 4.07. Asset Managers: Framework and Tools Used for Impact Performance Measurement, 2022	80
Exhibit 4.08. Asset Managers: Planned Use of Vehicle Types for Development of Responsible Investment Strategies, 2022	81
Exhibit 4.09. Comparison of ETF Issuer- and Advisor-Perceived Unmet Sustainable Product Demand, 2017-2021	82
Exhibit 4.10. Asset Managers: Active Ownership Approaches, 2022	83
Exhibit 4.11. Asset Managers: Top-20 ESG Themes Addressed Through Active Ownership Activities, 2022	84
Exhibit 4.12. Asset Managers: Institutions Investing Through Commingled Structures Can Vote Their Own Proxies on ESG-Related Issues, 2022	85
Exhibit 4.13. Asset Managers: Types of ESG Reporting Offered to Clients, 2022	86
Exhibit 4.14. Asset Managers: Use of Independent Third Party to Validate Performance Reporting, 2022	87
Exhibit 4.15. Asset Managers: Reporting of Engagement Activities, 2022	88
Exhibit 4.16. Asset Managers: Top-20 ESG Themes Incorporated Into ESG Integration Process, 2022	89
Exhibit 4.17. Asset Managers: Current Use of Database for ESG Ratings/Data, 2022	90

Table of Contents

Exhibit 4.18 - Part 1. Asset Managers: Planned Changes to Staffing of ESG Resources - Core Responsibility, 2022	91
Exhibit 4.18 - Part 2. Asset Managers: Planned Changes to Staffing of ESG Resources - Among Responsibility, 2022	92
Exhibit 4.19. Asset Managers: Methods Used to Create Accountability for Implementing and Delivering on ESG Goals, 2022.....	93
Exhibit 4.20. Asset Managers: Methods Used to Create Accountability for Implementing and Delivering on ESG Goals, 2022.....	94
Exhibit 4.21. Asset Managers: Methods of Education Used, 2022	95
Exhibit 4.22. Asset Managers: Effectiveness of Communication and Education Methods, 2022.	96
Exhibit 4.23. Asset Managers: Views on Which Organizations Should Be Responsible for Setting ESG Standards and Product Definitions, 2022	97
Exhibit 4.24. Asset Managers: Views on Which Organizations Should Be Responsible for Setting Standards Around ESG Disclosures, 2022	98
Chapter 5: The ESG Product Landscape	99
<i>Summary</i>	99
Exhibit 5.01. ESG Product Count by Implementation Type: ETFs and Mutual Funds, 2013–2Q 2022.....	101
Exhibit 5.02. ESG Product Count by Implementation Type: Separate Accounts and Commingled Funds, 2012–2Q 2022 YTD	102
Exhibit 5.03. ESG Assets by Implementation Type: ETFs and Mutual Funds, 2013–2Q 2022	103
Exhibit 5.04. ESG Assets by Implementation Type: Separate Accounts and Commingled Funds, 2012–2Q 2022.....	104
Exhibit 5.05. ESG Assets by Active and Passive Products: Mutual Funds and ETFs, 2013–2Q 2022	105
Exhibit 5.06. ESG Net Flows by Implementation Type: Mutual Funds and ETFs, 2013–2Q 2022 YTD	106
Exhibit 5.07. ESG Product Assets and Flows by Asset Class: Mutual Funds and ETFs, 2013–2Q 2022 YTD	107
Exhibit 5.08. Top-10 Morningstar Categories by ESG Product Assets and Net Flows, 2Q 2022 YTD.....	108
Exhibit 5.09. Top-10 ESG Managers by Assets and Net Flows: Mutual Funds and ETFs, 2Q 2022 YTD.....	109
Exhibit 5.10. Top-10 ESG Managers by Implementation Type and by Assets and Net Flows: Mutual Funds and ETFs, 2Q 2022 YTD ..	110
Exhibit 5.11. Top-Five Mutual Funds and ETFs by ESG Assets and Net Flows, 2Q 2022 YTD	111
Exhibit 5.12. Morningstar Sustainability Rating of ESG Funds by Implementation Type, 2022	112
Chapter 6: Institutional Investors' ESG Use	113
<i>Summary</i>	113
Exhibit 6.01 - Part 1. Asset Managers: Current Demand for ESG Strategies by Institutional Channel, 2022	116
Exhibit 6.01 - Part 2. Asset Managers: Demand for ESG Strategies in the Next Two to Three Years by Institutional Channel, 2022. .	117
 Exhibit 6.02. Asset Owners: Factors Driving Decision to Start Using ESG Criteria in Investment Analysis, 2022	118
 Exhibit 6.03. Asset Owners: Methods for Considering ESG Factors, 2022.....	119
Exhibit 6.04. Asset Owners: Challenges to Increasing Board/Investment Committee Receptivity of ESG Considerations, 2022.....	120

Table of Contents

Exhibit 6.05. Asset Owners: Level of Importance Placed on Asset Managers Having ESG Capabilities, 2022	121
Exhibit 6.06. Asset Owners: Length of Time Institutions Have Been Asking Managers About ESG Considerations, 2022.	122
Exhibit 6.07. Asset Owners: Key Criteria Used to Evaluate Asset Managers on ESG Considerations, 2022.	123
Exhibit 6.08. Asset Owners: Organization's Policy on ESG Integration, 2022	124
Exhibit 6.09. Asset Owners: Length of Time Institutions Have Been Using an ESG Integration Process, 2022	125
Exhibit 6.10. Asset Owners: Organizations That Include ESG Language in Their Investment Policy Statement, 2022.	126
Exhibit 6.11. Asset Owners: Organizations That Reference and/or Set Targets for ESG Criteria in Their Investment Policy Statement, 2022	127
Exhibit 6.12. Asset Owners: Types of ESG Reporting Asset Managers Are Required to Provide, 2022.	128
i Exhibit 6.13. Asset Owners: Criteria for Exclusionary Screening, 2022	129
Exhibit 6.14. Asset Owners: Length of Time Institutions Have Been Using an Exclusionary Screening Process, 2022	130
i Exhibit 6.15. Asset Owners: Active Ownership Approaches, 2022	131
Exhibit 6.16. Asset Owners: Length of Time Institutions Have Had an Active Ownership Process, 2022.	132
Exhibit 6.17. Asset Owners: Proxy Voting Responsibilities, 2022	133
Exhibit 6.18. Asset Owners: Engagement Responsibilities, 2022	134
Exhibit 6.19. Asset Owners: Organizations Requiring Asset Managers, Consultant, or Third-Party Provider to Vote Proxies in Favor of ESG Issues, 2022	135
Exhibit 6.20. Asset Owners: Types of Responsible Investment Products Used by Institutional Investors, 2022.	136
Exhibit 6.21. Asset Owners: Actual and Target Allocations to Responsible Investment Products, 2022	137
Exhibit 6.22. Asset Owners: Average Allocations Across Responsible Investment Products/Strategies, 2022	138
Exhibit 6.23. Asset Owners: Length of Time Institutions Have Been Allocating to Responsible Investment Products/Strategies, 2022 . . .	139
Exhibit 6.24. Asset Owners: Changes to Responsible Investment Product Allocations Over the Past Five Years and Next Five Years, 2022.	140
Exhibit 6.25. Asset Owners: Asset Classes Used to Invest in Responsible Investment Products/Strategies, 2022.	141
Exhibit 6.26. Asset Owners: Use of Actively or Passively Managed ESG/Sustainable Strategies, 2022.	142
i Exhibit 6.27. Asset Owners: Themes of Institutions' Responsible Investments, 2022.	143
Exhibit 6.28. Asset Owners: Structure of Responsible Investment/Mission-Related Investment Program, 2022.	144
Exhibit 6.29. Asset Owners: Length of Time Institutions Have Had a Responsible Investment/Mission-Related Investment Program, 2022	145
Exhibit 6.30. Asset Owners: Use of Consultant/Advisor or OCIO for Support With Responsible Investment, 2022.	146
Exhibit 6.31. Asset Owners: Consultant/OCIO ESG-Related Services Provided, 2022	147

Table of Contents

Exhibit 6.32. Asset Owners: Views on Which Organizations Should Be Responsible for Setting ESG Standards and Product Definitions, 2022	148
Exhibit 6.33. Asset Owners: Views on Which Organizations Should Be Responsible for Setting Standards Around ESG Disclosures, 2022	149
Chapter 7: Retail Investor Interest in ESG	150
<i>Summary</i>	150
Exhibit 7.01 - Part 1. Asset Managers: Retail Demand for ESG Strategies Currently by Channel, 2022	152
Exhibit 7.01 - Part 2. Asset Managers: Retail Demand for ESG Strategies in the Next Two to Three Years by Channel, 2022	153
Exhibit 7.02. Managed Account Sponsors' Top Solution Requirements from Asset Managers, 2021 vs. 2022	154
Exhibit 7.03 - Part 1. Asset Managers: Demand for ESG Strategies Currently by Wealth Tier, 2022	155
Exhibit 7.03 - Part 2. Asset Managers: Demand for ESG Strategies in the Next Two to Three Years by Wealth Tier, 2022	156
Exhibit 7.04. Financial Advisors: Average Client Allocations to ESG/Sustainable Products, 2022 vs. 2024E.	157
Exhibit 7.05. Financial Advisors: Percentage of Advisors Who Use ESG Factors for Client Accounts or Assets, 2022	158
Exhibit 7.06. Financial Advisors: Reasons for Using ESG Strategies, 2022.	159
Exhibit 7.07. Financial Advisors: Percentage of Clients Who Have Asked About Sustainable Investing, 2022.	160
Exhibit 7.08. Financial Advisors: Discussion of Sustainable/ESG Investments with Clients, 2022	161
Exhibit 7.09. Financial Advisors: Motivations for ESG/Sustainable Discussions with Clients, 2022	162
Exhibit 7.10. Financial Advisors: Reasons Why Advisors Are Not Discussing Sustainable/ESG Investments with Clients, 2022	163
Exhibit 7.11. Financial Advisors: Reasons Preventing Adoption of ESG Strategies, 2022	164
Exhibit 7.12. Financial Advisors: Actual and Planned Vehicle Use for ESG/SRI Products and Strategies, 2022	165
Exhibit 7.13. Financial Advisors: Firms With Strongest Reputation for High-Quality ESG/SRI Strategies, 2022	166
Exhibit 7.14. Retail Investor Preference for ESG Investing, 2018–1Q 2022	167
Exhibit 7.15 - Part 1. Retail Investor Preference for ESG Investing by Primary Provider Channel, 1Q 2022.	168
Exhibit 7.15 - Part 2. Retail Investor Preference for ESG Investing Databank, 1Q 2022	169
Exhibit 7.16. Retail Investors: Investment Performance Concerns by Advice Orientation, 1Q 2022.	170
Exhibit 7.17. Retail Investors: Encourage Environmental/Social Progress Through Personal Actions by Advice Orientation, 1Q 2022.	171
Exhibit 7.18. Retail Investors: Environmental and Social Issues Are Not a Priority by Advice Orientation, 1Q 2022	172
Exhibit 7.19. Retail Investor ESG Awareness, 1Q 2022	173
Exhibit 7.20. Retail Investors: Prompted ESG Adoption by Advice Orientation, 1Q 2022	174
Exhibit 7.21. Retail Investors: Net Interest in ESG Investment Themes by Age Range, 1Q 2022	175
Company Index	176

Company Index

American Funds, 109, 111
BlackRock/iShares, 48, 61, 100, 109-111, 166
Calvert, 33, 109, 166
Catholic Responsible Investments, 110
Ceres, 49, 56
Franklin Templeton, 48
Goldman Sachs, 48
GuideStone, 109
Impact Shares, 41
Invesco, 48, 110, 111
Morgan Stanley, 34, 48
Nuveen, 109
Parnassus, 109
Pax, 41
RBC, 40
State Street, 48
Sterling Capital Management, 41
TIAA, 109, 110
Vanguard, 100, 109, 110, 166
Washington Mutual, 109
Wellington, 48