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One of Aon's core missions is to quickly uncover change in the investment landscape and then to rapidly provide actionable insight to our clients about those new developments. It has been a number of years since we've seen change as rapid as what we've witnessed recently in the realm of responsible investing. In just two short years, we've gone from clients asking sporadically about responsible investing ("RI") to full-scale development of RI policies, implementation of RI initiatives and a significant change in how investors and asset managers incorporate and evaluate RI data into their investment strategies.

As we work to stay ahead of the RI curve, we've noted that a number of institutional investors remain unaware of how their investment peers are implementing responsible investing initiatives. Unfortunately, in a quickly evolving environment like RI, this can be particularly problematic as investors work to deploy new policies and procedures, which in most cases requires significant buy-in from key stakeholders. Having information on the "new responsible investing normal" would provide earlier adopters with industry affirmation, best practices and innovative ideas for their RI programs.

Based on this ongoing need for peer data, Aon launched its first annual global survey on responsible investing. We surveyed institutional investors across geographies, investor types and the assets under management spectrum to uncover current initiatives and future plans for responsible investing. The information we uncovered was highly illuminating for Aon, and confirmed that a number of initiatives we've launched over the last 18 months should provide some relief to beleaguered RI investors.

For example, we've developed a standard set of definitions for the four key categories of responsible investment to help clear up investor confusion around RI, and we've started generating ESG ratings on all Aon buy-rated investment managers. At the same time we're working to uncover investment talent and scalable investment solutions for investors, large and small, who wish to implement RI of any kind within their portfolios. Surveys such as this one will only help Aon as we continue to develop our RI client toolkit, and we hope the results are likewise beneficial to you in your responsible investment endeavors.

*With best wishes,*

**Cary Grace**  
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# Introduction

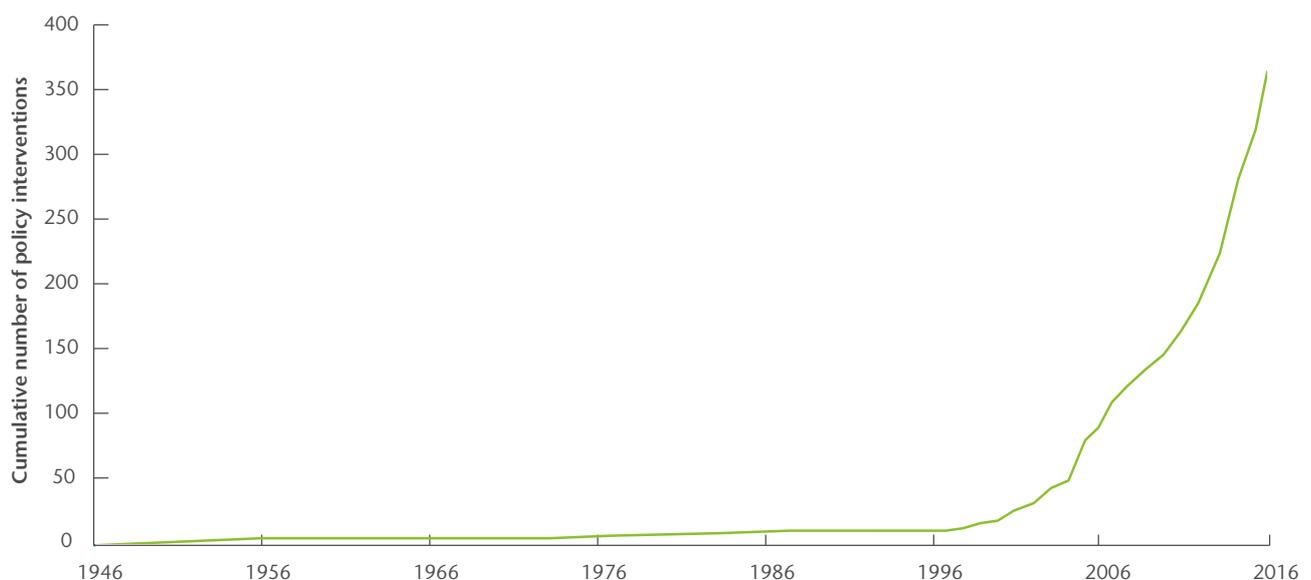
Over the course of the past year, Aon has noted a dramatic upsurge in the number of institutional clients who are exploring or implementing responsible investing (“RI”) initiatives. Just a few years ago, institutional investors with RI programs were few and far between. Today, we have many clients in various stages of RI program development, from educational initiatives for investment staff and boards to full on deployment of RI policies and procedures. To stay current with the evolving landscape, we launched a global responsible investment survey to capture current attitudes towards and developments in investors’ RI thinking, and we’re delighted to share those results with you in this paper.

Aon believes that there are a few factors driving this increased interest in RI, including:

- Regulatory changes across geographies
- Demographic shifts, including workforce shifts to millennials and generational wealth transfers to women
- Identification of non-financial risk factors and further quantification of materiality through expanding and higher quality environmental, social and governance (“ESG”) data

The regulatory changes are perhaps the easiest to identify and quantify. There have been dramatic changes across the RI regulatory regime in almost every geography in recent months and years. *The United Nations Principles for Responsible Investing* (“UN PRI”) tracks the number of policy initiatives related to RI and Environmental, Social and Governance factors across the top 50 countries (by GDP). As you can see, the number of policy initiatives has increased exponentially just in the last five to ten years alone.

**Figure 1: Increasing public policy on responsible investing<sup>1</sup>**



Source: PRI responsible investment regulation database

<sup>1</sup> United Nations Principles for Responsible Investment Information Accessed May 2018  
<https://www.unpri.org/policy-and-regulation/mapping-responsible-investment-policy/208.article>

In addition, the demographics of the workforce are also experiencing a shift. Millennials have now eclipsed Baby Boomers as the dominant group in the workforce.<sup>2</sup> What's more, 71 percent of these workers are already saving for retirement and 39 percent are saving 10 percent or more of their income.<sup>3</sup> This demographic shift is a key factor in the rise of responsible investing, as a higher percentage of millennials (some surveys show as high as 86 percent<sup>4</sup>) are interested in responsible investing. Likewise, women, who now control more than 50% of the investable wealth in the US<sup>5</sup> and are an increasing financial force in other geographies, are also interested in "doing good and doing well." Some studies show that up to 80% or more of women are interested in responsible investing.<sup>6</sup> Together, these two demographic groups are likely responsible for the doubling of ESG assets since 2014.<sup>7</sup> Regardless of age or gender, affluent investors are flocking to responsible investing. In a 2016 survey by TIAA-CREF, 77 percent of wealthy investors wanted their investment assets to positively impact society.<sup>8</sup>

As regulatory requirements and investor interest has accelerated, so too has the amount of information available on the risks and rewards associated with responsible investment. For example, the largest meta-study of ESG data, conducted by Gunnar Friede, Timo Busch & Alexander Bassen (2015) attempted to amass ESG data and financial performance based on aggregated evidence from more than 2,000 empirical studies conducted between 1970 and 2015. This study concludes that, after a review of roughly 2,200 individual studies, "the business case for ESG investing is empirically very well founded [and] roughly 90 percent of studies find a nonnegative ESG—CFP [corporate financial performance] relation."<sup>9</sup>

Furthermore, Bank of America Merrill Lynch studied the ESG scores of companies that declared bankruptcy between 2008 and 2016 and found that "an investor who held stocks

with above average-ranks on both Environmental and Social scores would have avoided 15 of the 17 bankruptcies we have seen since 2008."<sup>10</sup> Meanwhile, Hermes attempted to quantify the relationship between ESG Score (QESG) and credit ratings in a 2017 paper, concluding that "companies with the lowest QESG Scores tend to have the widest [credit default swap] spreads and broadest distributions of annual CDS spreads...[and] credit ratings do not perfectly accurately reflect ESG risks and thereby do not serve as sufficient proxy for ESG risk."<sup>11</sup> And finally, data provider MSCI examined volatility and risk within an ESG integration framework in 2017. Examining both systematic and idiosyncratic risk (the market risk of an investment and the specific risks attributable to a company or sector), they found that companies with high or upgraded ESG ratings generally improved in both. For example, companies that saw an ESG rating upgrade generally exhibited a decrease in systemic volatility, as well as decrease in the cost of capital.<sup>12</sup>

Whatever their reason for investigating responsible investing, it's undeniable that at least retail investors have been investing in droves. Institutional investors have been a bit slower to adopt wide-reaching RI policies and procedures, but, based on the results of Aon's inaugural responsible investing survey, it appears that tide may be turning, particular for investors in the EU/Continental Europe and in the UK. North American investors may currently lag their European counterparts, but the question remains: for how long?

Aon's *Global perspectives on responsible investing* aims to answer that, and other questions by looking into the RI behavior of institutional investors globally to determine current RI practices, obstacles to the implementation of responsible investing initiatives, and future goals for responsible investing.

<sup>2</sup> *Inside Philanthropy* March 29, 2018 <https://www.insidephilanthropy.com/home/2018/3/29/we-want-change-socially-conscious-employees-are-driving-a-paradigm-shift-in-corporate-giving>

<sup>3</sup> *USA Today* April 3, 2018 <https://www.usatoday.com/story/money/personalfinance/2018/04/03/millennials-are-saving-well-but-theyre-investing-their-money-all-wrong/33472793/>

<sup>4</sup> *Advisor Hub* June 1, 2017 <https://advisorhub.com/millennials-demand-socially-responsible-investments/>

<sup>5</sup> *Investment News* December 2, 2017 <http://www.investmentnews.com/article/20171202/FREE/171209991/esg-funds-boosted-by-women-and-millennial-investors>

<sup>6</sup> *ibid.*

<sup>7</sup> *ibid.*

<sup>8</sup> *Financial Advisor Magazine* May 31, 2016 <https://www.fa-mag.com/news/advisors-lack-sri-knowledge-27175.html>

<sup>9</sup> *Journal of Sustainable Finance and Investment*, Volume 5, 2015, Issue 4 Pages 210–233 <http://dx.doi.org/10.1080/20430795.2015.1118917>

<sup>10</sup> *Bank of America Merrill Lynch Information* accessed April 2018 [https://www.bofam.com/content/dam/boamlimages/documents/articles/ID17\\_0028/equitystrategyfocuspoint\\_esg.pdf](https://www.bofam.com/content/dam/boamlimages/documents/articles/ID17_0028/equitystrategyfocuspoint_esg.pdf)

<sup>11</sup> *Hermes Investments Management Q2 2017* <https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/04/Hermes-Credit-ESG-Paper-April-2017.pdf>

<sup>12</sup> *MSCI ESG Research LLC* November 2017 <https://www.msci.com/documents/10199/03d6faef-2394-44e9-a119-4ca130909226>

# Key findings

When asked how their organizations felt about responsible investing, respondent answers grouped into a typical bell curve, with five percent indicating RI is mission critical, five percent indicating RI is not important, and 68 percent indicating responsible investing was at least somewhat important to their organization.

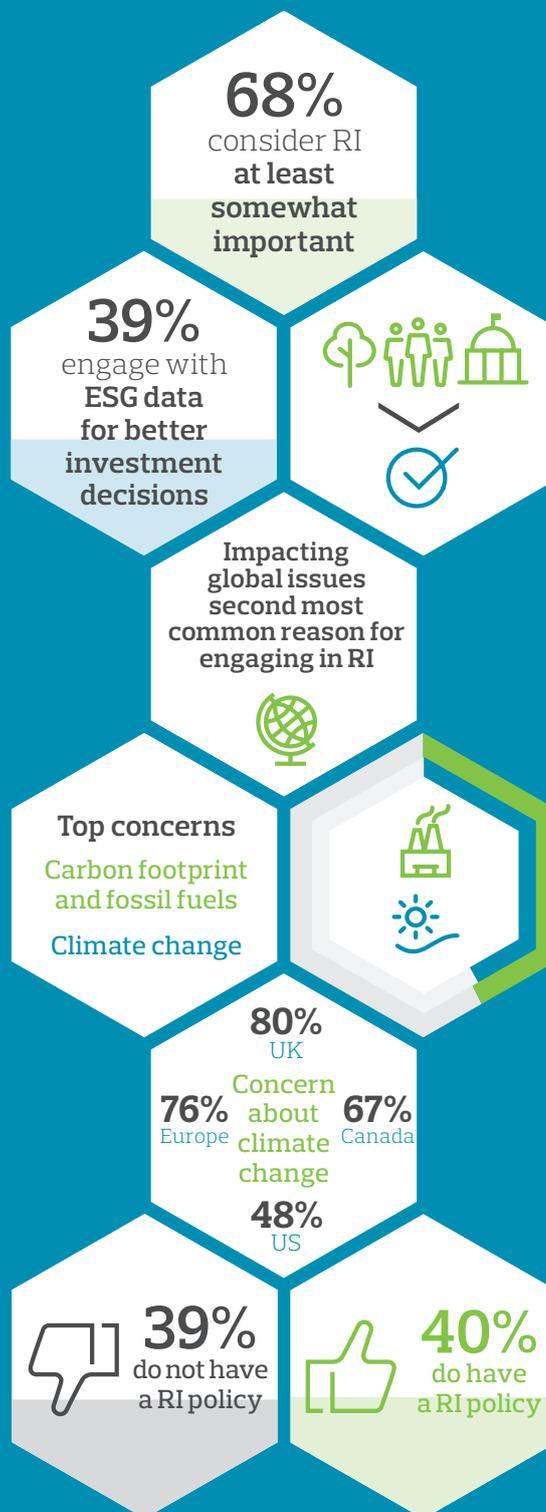
When asked why they had chosen to implement a responsible investing initiative within their organization, many respondents (39 percent) indicated they had done so due to a belief that the incorporation of non-financial ESG data resulted in better investment decisions.

The second most common reason for engaging in responsible investment practices, (26 percent) for the global investors in our survey was a desire to impact certain global issues.

There are a number of issues that concern the investors in our survey. Climate change and fossil fuels/carbon footprint seem to be the RI issues upon which most investors agree, at 42 percent and 43 percent, respectively. Governance issues in the form of bribery and corruption came in third in our poll, with 37 percent of respondents indicating it was a key factor in their responsible investing initiatives. Rounding out the top five concerns were weapons manufacturing or military complex, which tied with renewable energy at 36.5 percent as a key concern.

For investor organizations in the UK (80 percent), the EU/Continental Europe (76 percent), and Canada (67 percent), climate change is top of mind and causing concerns about investments. For the US investors polled, climate change ranked second among the investment concerns listed, at 48 percent, having been edged by concerns about nationalism at 56 percent.

More than a third of the investors Aon polled have no responsible investing policy in place within their organization. However, while 39 percent of investors do not have a responsible investing policy, 40 percent do have a policy in place, and another 14 percent indicate that they are in the process of developing a policy.





Investors in the EU/Continental Europe were the most likely to have dedicated resources for responsible investing, at 28 percent, while 82 percent of the US investors polled indicated they had no staff on hand focusing on responsible investing.

Just over two-thirds of the investors polled indicated that the onus for responsible investing falls to the outside investment managers with whom they place assets. More than one-third indicated they bear some of the brunt of implementing a responsible investing program, and another 29 percent indicated that responsible investing was delegated, at least in part, to their investment consultants.

More than 38 percent of those polled indicated that their number one hurdle to responsible investing was a lack of consensus about the impact of responsible investing on investment returns.

Investors that are active in responsible investing seem to overwhelmingly favor the integration of ESG factors into investment decisions (47 percent) over other types of RI. Socially responsible investing (negative screening) comes in second at 24 percent, mostly based on the strength of respondents from the EU/Continental Europe.

Of those polled, roughly 30 percent have between 75 percent and 100 percent RI coverage through their underlying investment managers. More than a third of those polled don't know or don't track their underlying investment managers' engagement in responsible investing or ESG.

Only eight percent of those polled indicated that failure to have a responsible investing policy was a firing offense for outside fund managers. Of those polled in the US, no investors indicated they would withdraw from a manager who lacked an RI policy, while Canada, the EU/Continental Europe and the UK, the numbers were somewhat higher, at five percent, nine percent and 11 percent, respectively.

# Methodology

To create the 2018 report “*Global perspectives on responsible investing*”

Aon relied on the following information:

- A global survey of Aon clients and institutional investor contacts conducted from late November 2017 through early March 2018.
- The survey captured the sentiments of 223 investment professionals globally.
- Responses from the survey were analyzed and aggregated to create summary results.
- Responses were also parsed based on a number of key demographic groups identified by Aon. Demographic groups whose responses were considered separately include:

**By investor type:**

- Defined contribution plans
- Corporate pension plans
- Public pension plans
- Endowments and foundations

**By Geographic Region:**

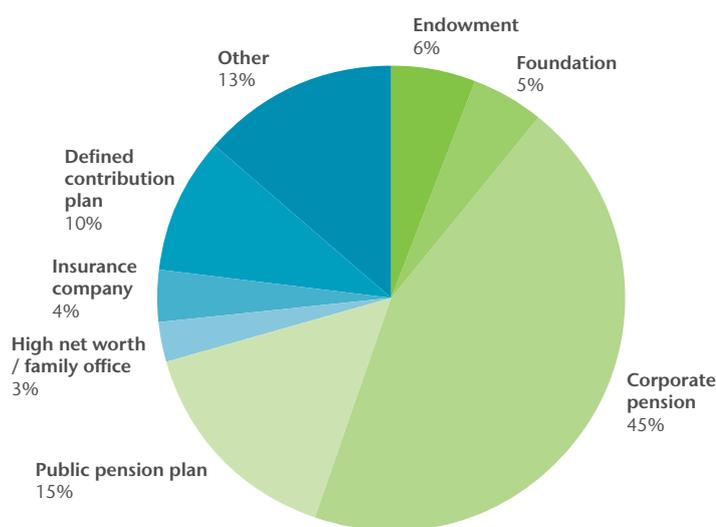
- Respondents in the United States
  - Respondents in the United Kingdom
  - Respondents in the European Union/Continental Europe
  - Respondents in Canada
- Survey participants were asked to provide additional “color” throughout the survey process. These comments have been considered in the creation of the report and, in some cases, have been included in the report.
  - Research on key trends and developments in responsible investing, including academic research, articles and white papers.
  - Regulatory considerations, where applicable.

**Please note:** Totals may exceed 100% due to rounding or selection of multiple options.

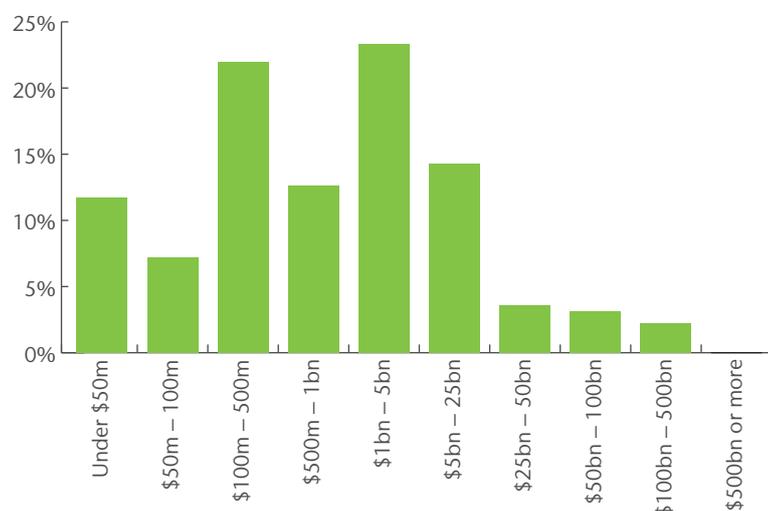
# Demographics of survey respondents

The 2018 report *Global perspectives on responsible investing* encompasses feedback from a diverse group of 223 institutional investors located around the globe. Corporate pensions have often been identified as laggards in the realm of responsible investing, with Bloomberg becoming the first corporate plan sponsor in the US to sign the *UN Principles of responsible investing* in October 2017, joining a mere 68 other global pension or retirement provider signatories (roughly four percent of total PRI signatories).<sup>13</sup> However, in our survey, corporate pensions were the most likely institutional investor respondent type, comprising 45 percent of the total respondents. Public pensions were the second most common respondent type, with 15 percent of the total respondents, followed by endowments and foundations at 11 percent of respondents. Defined contribution plans followed closely behind, joining our survey with 10 percent of the total respondents. Those respondents in the “other” category were difficult to categorize into appropriate subgroups based on the information provided.

**Figure 2: Survey respondents by organization type**



**Figure 3: Survey respondents by size of organization**



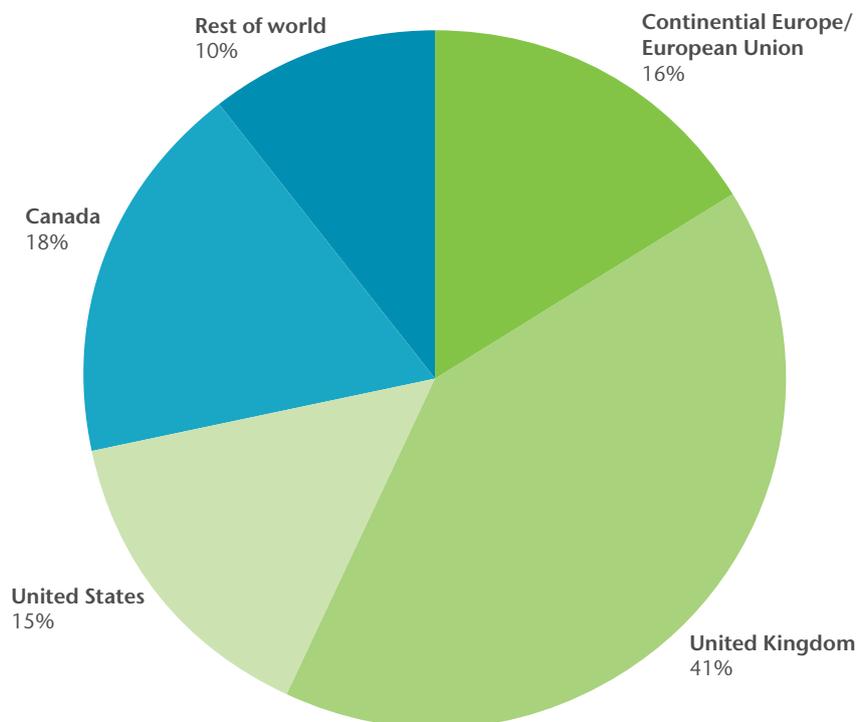
The investor organizations that responded to Aon’s survey were more likely to manage \$25 billion or less in total assets, with organizations managing \$1 billion to \$5 billion providing the most respondents (23 percent) and investors with \$100 billion or more providing the least (two percent). While this obviously has some implications later in the survey, most likely around responsible investment staffing and implementation, we do believe that the cross section of organizations by size is adequate to identify trends in responsible investing.

<sup>13</sup> *Pensions & Investments* October 12, 2017 <http://www.pionline.com/article/20171012/ONLINE/171019940/bloomberg-becomes-first-us-corporate-plan-sponsor-to-sign-principles-for-responsible-investment>

Finally, we examined the survey respondents to determine their main geographic location (headquarters), since attitudes towards responsible investing vary greatly between regions. For example, an April 2018 search of the UN PRI signatory database found only 32 Canadian asset owner signatories and 39 US asset owner signatories while a search of signatories in the United Kingdom yielded 46 asset owners. Within the European Union/Continental Europe, there are more than 150 asset owner signatories to the UN PRI. Interestingly, the majority of Aon's survey respondents were based in the UK (41 percent), while

Canada and the European Union/Continental Europe came in second and third, with 18 percent and 16 percent of respondents, respectively. We believe the level of responses in each region is more in line with direct survey outreach efforts in the various areas, more so than an indication of regionally changing attitudes towards responsible investing. For example, when questioned, all respondents groups, regardless of geography, indicated they expect the European Union/Continental Europe to continue to lead global growth in responsible investment initiatives.

**Figure 4: Survey respondents by location**

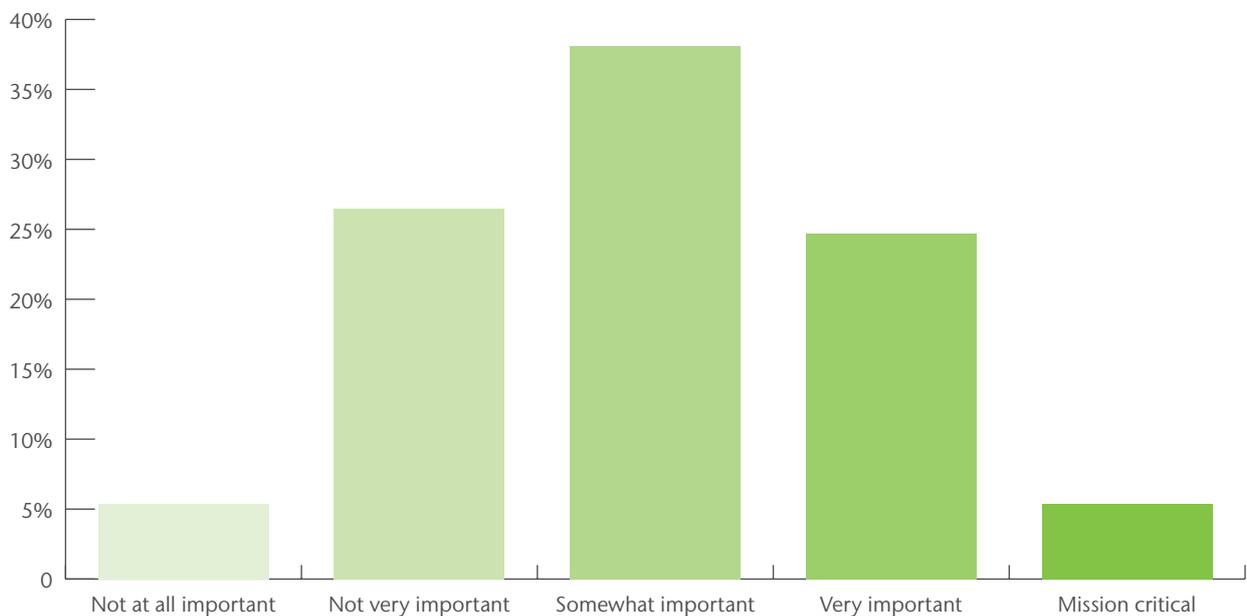


# Investor attitudes towards responsible investing

The investor organizations in our survey expressed a wide array of attitudes towards responsible investing, as well as a variety of current levels of implementation. When asked how their organizations felt about responsible investing, the respondents replied with everything from “mission critical” (five percent) to “not at all important” (also five percent). The majority of respondents indicated that responsible investing was at least somewhat important to their organization (68 percent). There was not a lot of variation in responses between regions, although the UK, EU and Canada did edge the US for “mission critical” responses, foundations were, perhaps not surprisingly, the most likely group to indicate that responsible investing initiatives are “mission critical” to their organization.

Investors in the survey provided a host of reasons why responsible investing wasn’t more important to their organization. Many of those polled indicated there was a lack of agreement among key stakeholders/trustees about responsible investing or that it was difficult to balance responsible investing initiatives with their fiduciary duty. Still others cited issues with implementation, such as a lack of responsible investment product options due to the organization’s size. And many simply stated that responsible investing is growing in importance, but hasn’t attained mission critical status as yet.

**Figure 5: Importance of responsible investing to your organization**



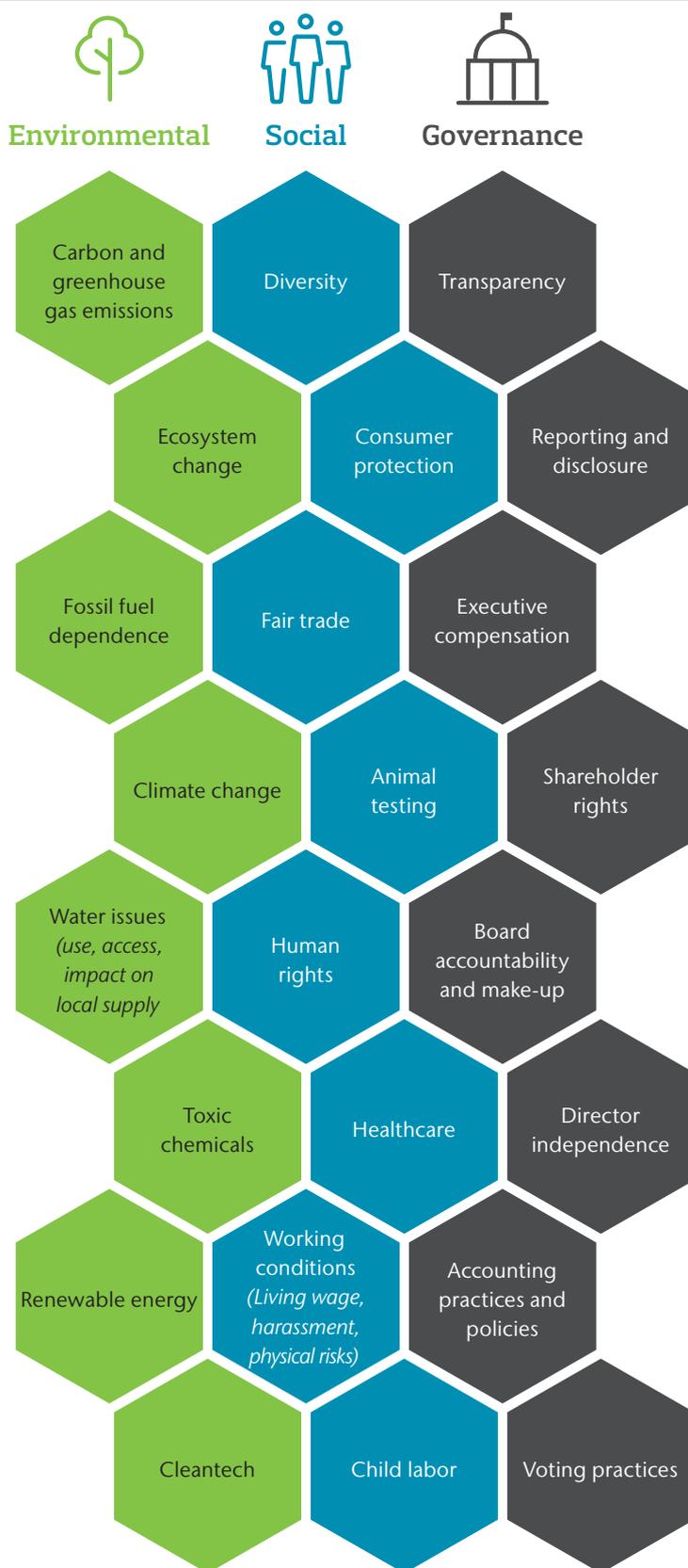
“The majority of respondents indicated that responsible investing was at least somewhat important to their organization”

When asked why they had chosen to implement a responsible investing initiative within their organization, many respondents (39 percent) indicated they had done so due to a belief that the incorporation of non-financial ESG data resulted in better investment decisions. This is in line with Aon's core beliefs about ESG integration, as Aon believes that incorporating material ESG factors into investment research has the potential to improve returns and to reduce risk and volatility within investment portfolios. Aon also acknowledges that the ESG factors (to the right), among others, may have a material impact on a company's future performance, and we encourage investment managers and institutional investors to evaluate these, and other, factors.

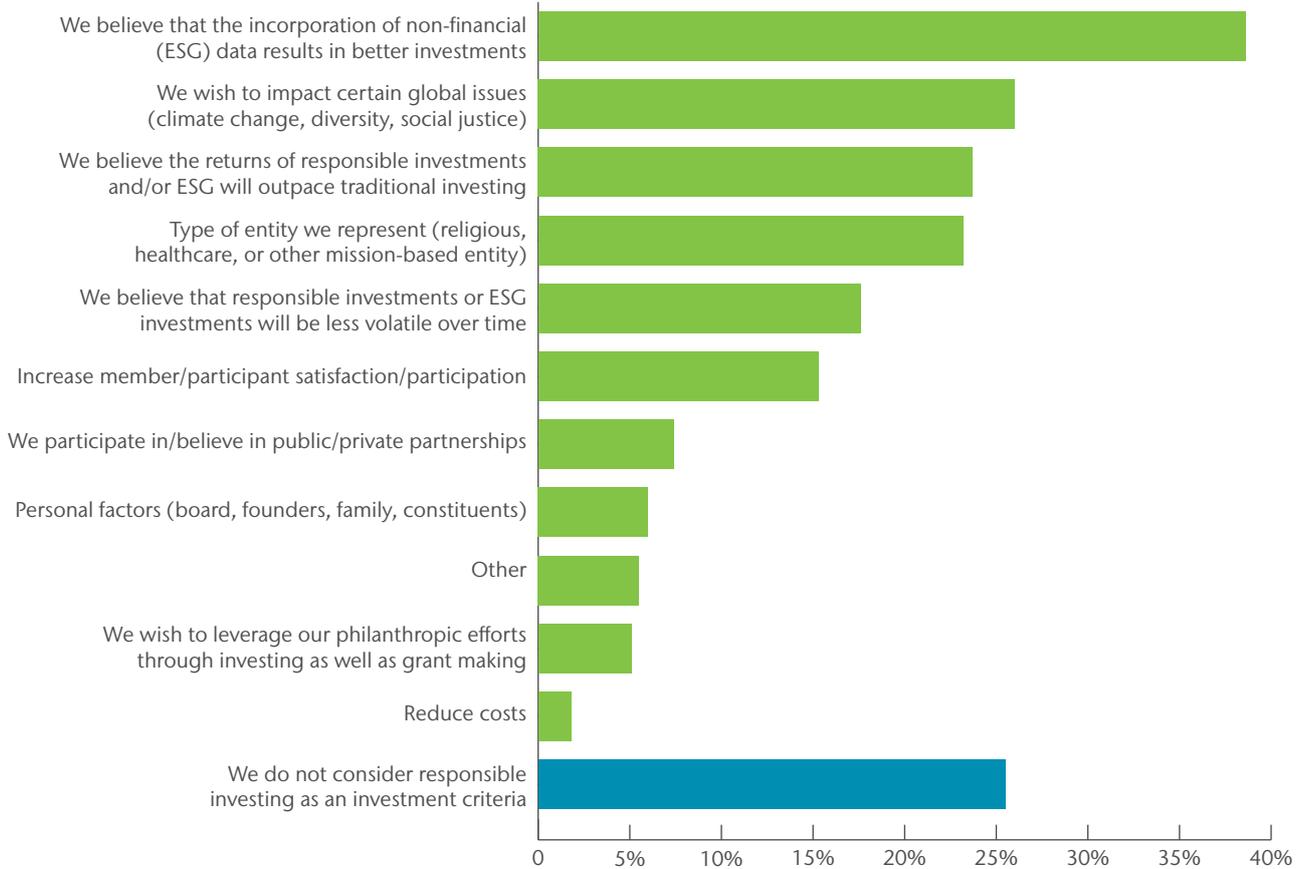
The second most common reason for engaging in responsible investment practices, (26 percent) for the global investors in our survey was a desire to impact certain global issues, many of which may also be listed in Aon's key ESG considerations. The third most common response was that investors simply do not consider responsible investing in their investment criteria.

"Aon believes that incorporating material ESG factors into investment research has the potential to improve returns and to reduce risk and volatility within investment portfolios"

### Key ESG factors



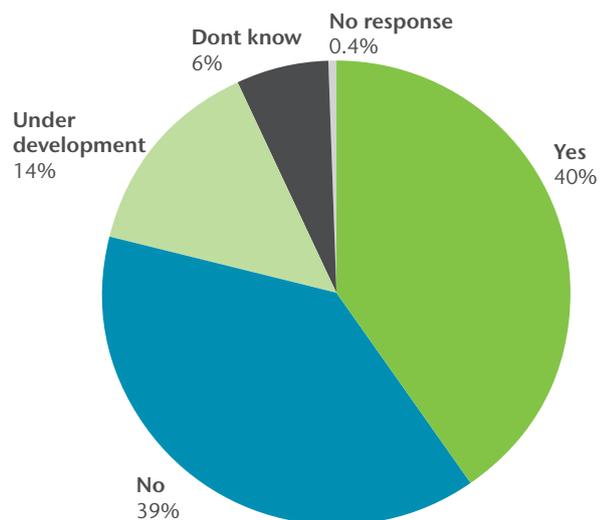
**Figure 6: Reasons for responsible investing**



\* Respondents could choose more than one response

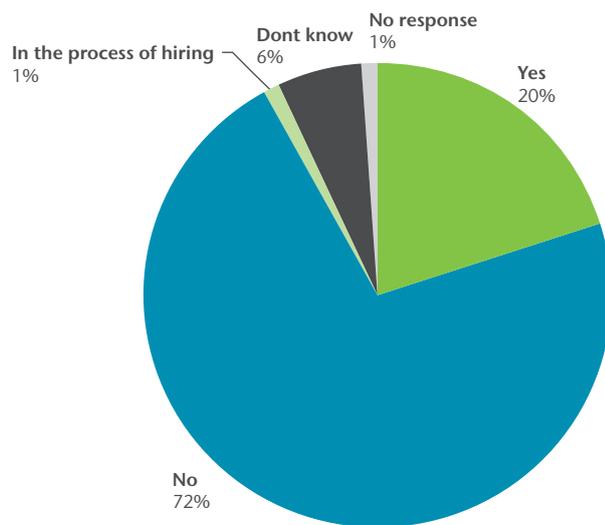
It is perhaps not surprising therefore that more than a third of the investors Aon polled have no responsible investing policy in place within their organization. However, while 39 percent of investors do not have a responsible investing policy, 40 percent do have a policy in place, and another 14 percent indicate that they are in the process of developing a policy. Of those polled, corporate pensions were the most likely to not have a responsible investing policy (75 percent), followed by defined contribution plans (67 percent). Endowments and foundations (58 percent) were the most likely to have responsible investing policies, followed by half of the public pensions polled. Geographically speaking, US investors were the least likely to have responsible investment policies (70 percent), while investor organizations in the EU and UK were equally likely to have one (47 percent).

**Figure 7: Responsible investing policies**



Whether it's due to the lack of a responsible investing policy, or to the smaller size skew of the organizations in our survey, nearly three quarters of those polled indicated they have no dedicated staff to pursue responsible investing initiatives within their organizations. Investors in the EU/Continental Europe were the most likely to have dedicated resources for responsible investing, at 28 percent, while 82 percent of the US investors polled indicated they had no dedicated staff on hand focusing on responsible investing. Of the organization types, endowments and foundations were the most likely to have dedicated RI staff, with one-quarter indicating they had such resources at hand. Defined contribution plans and corporate pensions were the most likely to have no dedicated RI staff, at 76 percent and 75 percent, respectively.

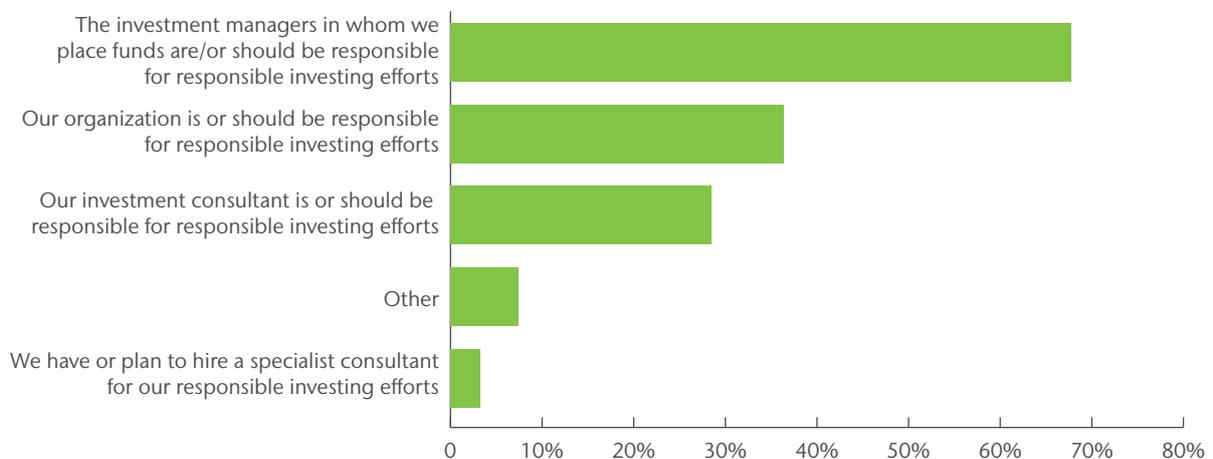
**Figure 8: Presence of dedicated responsible investing staff**



For those firms that do engage in responsible investing, we wanted to know who within the organization's investment infrastructure was primarily responsible for implementing RI, especially given that we now know most organizations do not have dedicated RI resources. Just over two-thirds of the investors polled indicated that responsible investing falls to the outside investment managers with whom they place assets. More than one-third indicated they bear some of the brunt of implementing a responsible investing program internally, and another 29 percent indicated that responsible investing was delegated, at least in part, to their investment consultant(s).

Endowments and foundations were highly likely to indicate that RI is considered an internal initiative, with 48 percent stating that their organization is responsible for responsible investing initiatives. However, E&F's were barely edged by public pensions, 53 percent of whom indicated that the responsible investing buck stopped with their organization. Defined contribution plans were the most likely to put the onus of responsible investing on their investment consultants.

**Figure 9: Responsibility for responsible investing**

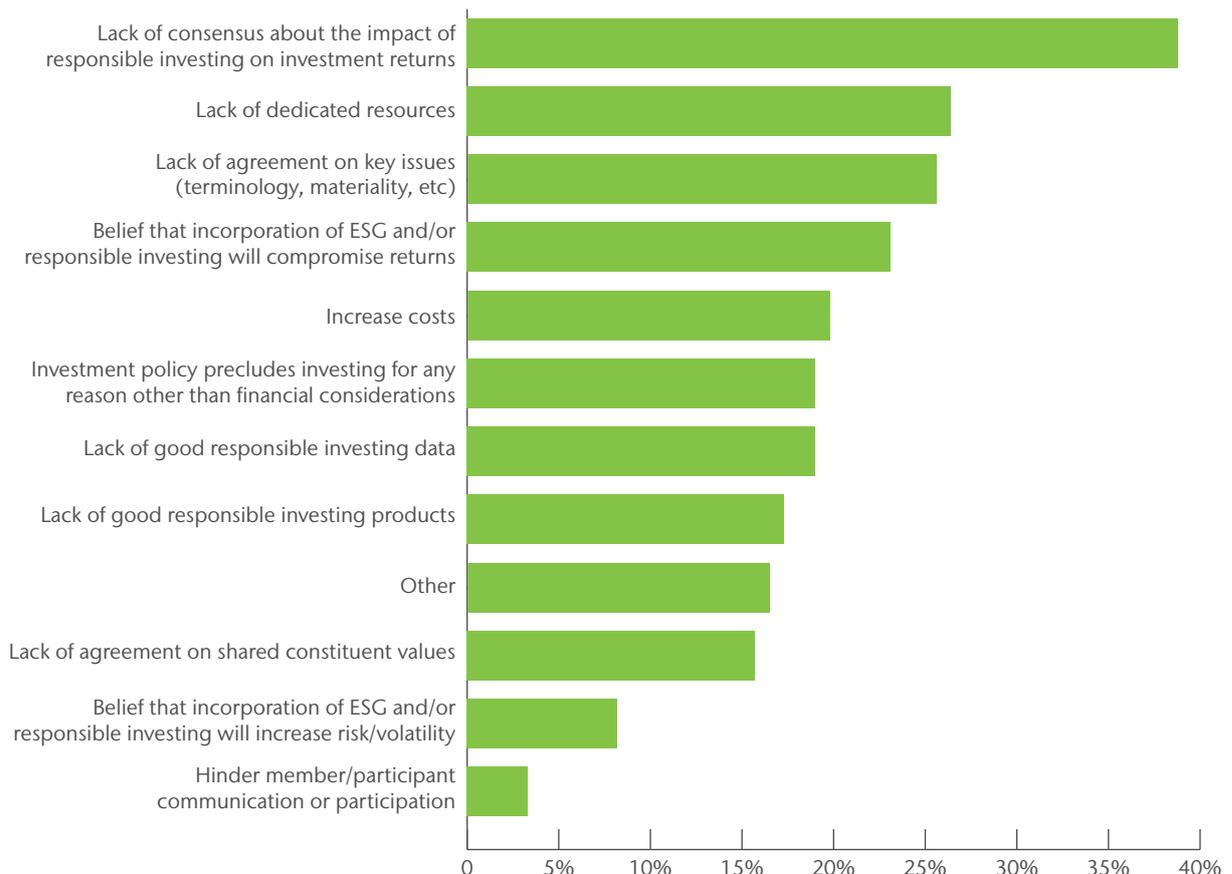


Since a large percentage of the investor organizations polled indicated they do not have a responsible investing policy (39 percent) or dedicated RI staff (72 percent) it seemed appropriate to inquire about these organizations' objections to responsible investing. More than 38 percent of those polled indicated that their number one hurdle for responsible investing was a lack of consensus about the impact of responsible investing on investment returns. One investor summed up the majority of investor issues well, stating "The real problem with this topic is that it is largely undefined and it means different things to different people. Second, there is debate regarding the effectiveness of 'divesting.' Can you affect change in an organization by not buying the stock in the secondary market? The best approach may be to invest without regard to these views and instead make positive donations to the causes, organizations and charities that best reflect the views important to the individual." Another respondent stated

simply: "If responsible investments increase returns we would consider them but would evaluate them on the basis of financial criteria only," while several others were a bit more blunt. One respondent called responsible investing "a fad" and another stated, "It's a load of nonsense. Too many other important things to worry about."

Depending on the type of investor organization, responses varied about why firms aren't embracing responsible investing. Corporate pensions indicated that the lack of consensus about impact on investment returns was a top concern (40 percent), as did endowments and foundations (57 percent of the small number that answered this particular question). Meanwhile, public pensions cited a lack of dedicated staff as a primary reason for avoiding responsible investing (53 percent) and defined contribution plans pointed to a lack of good RI products (50 percent).

**Figure 10: Why we don't engage in responsible investing**



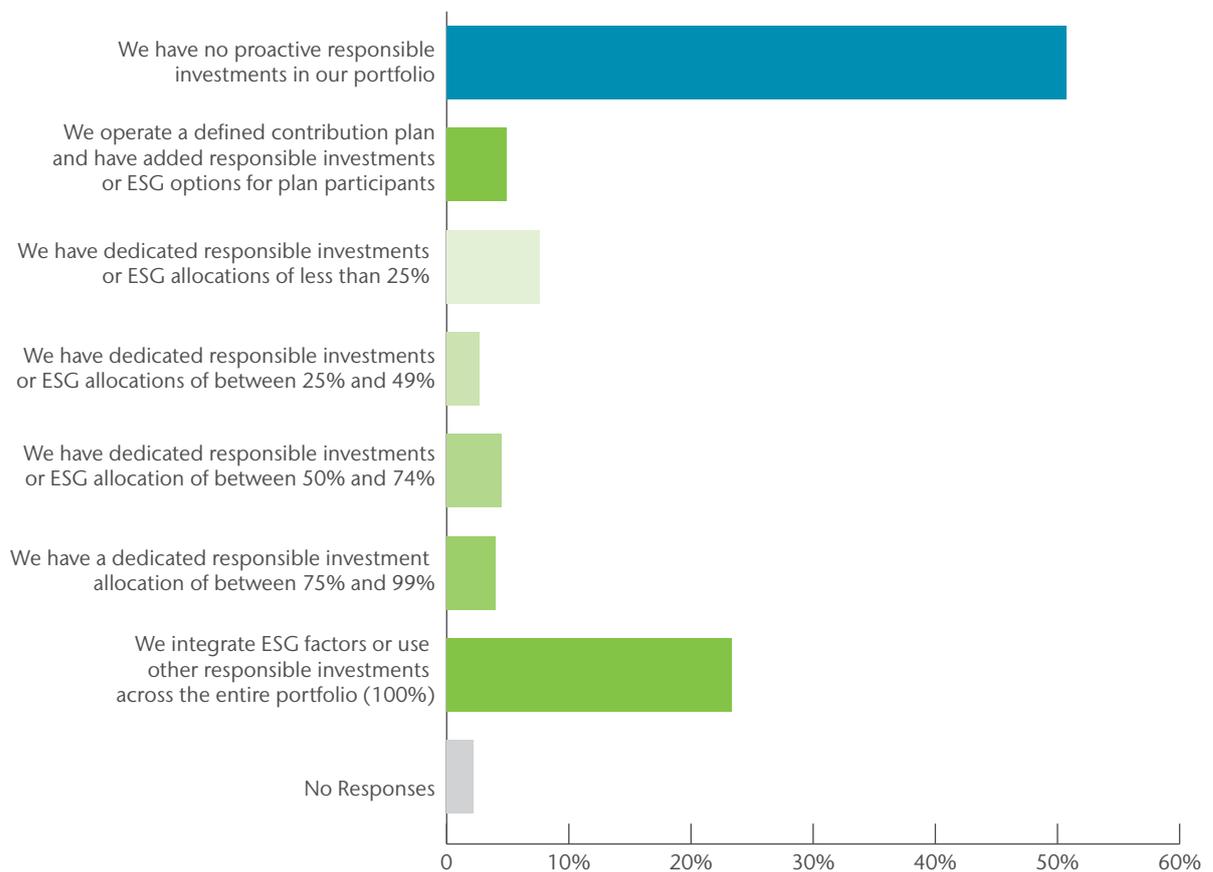
“More than 38 percent of those polled indicated that their number one hurdle for responsible investing was a lack of consensus about the impact of responsible investing on investment returns.”

# Responsible investment: practical application within portfolios

One of the things that was apparent throughout the survey was that direct application of responsible investment initiatives remains a significant hurdle for many investors, even those with a deep commitment to the space. As a result, just over half of the investor organizations polled indicated they currently have no proactive responsible investments within their portfolios (51 percent). For some, it was because there is an implied contract with underlying investment managers to engage in RI through the integration of

environmental, social and governance factors into investment analysis. “[T]here is an expectation that all our fund manager (i.e 100% of AUM) ...adhere to responsible investment (e.g. stewardship code, UN principles). By this I do not mean that we are actively screening or barring investments,” said one respondent. Others indicated that they were early in the process, but planned to make responsible investments in the future (“We just began using ESG in our UK DC and DB plans so there is nothing in them yet”).

**Figure 11: Current responsible investing allocations**



Aon breaks the world of responsible investing into four primary sub-categories of investing. Those categories include:



### 1. Socially responsible investing

*(“SRI” – negative screens)*

SRI investing involves the avoidance of or divestment from an investment or group of investments, usually based on an investor’s or organization’s value system. Examples of SRI investing might include fossil-fuel-free or tobacco-free investment initiatives, the avoidance of firearms or munitions manufacturing, or eschewing private prisons, coal, etc.



### 2. Impact investing

*(Positive screens – generally aligned with desired social, economic or environment outcome)*

Impact Investing is also generally aligned with an individual or organization’s values. Often referred to as “doing good and doing well,” the goal of Impact Investing is to generate returns while having a positive impact on a particular demographic group, business outcome or environmental factor. Examples of Impact Investing might include investments in public health facilities, workforce housing, cleantech or renewable energy, gender lens, etc.



### 3. Environmental, social and governance integration

*(ESG)*

A growing body of research presents compelling cases that certain ESG factors will likely have an impact on the global economy (e.g. climate change) and on individual corporate results. From an investment strategy perspective, Aon views non-financial ESG factors as potential risks that can and should be monitored, as well as possible investment opportunities for outperformance. ESG data tends to be value-neutral, and few sectors or investments would be “off the table” when it comes to ESG integration.



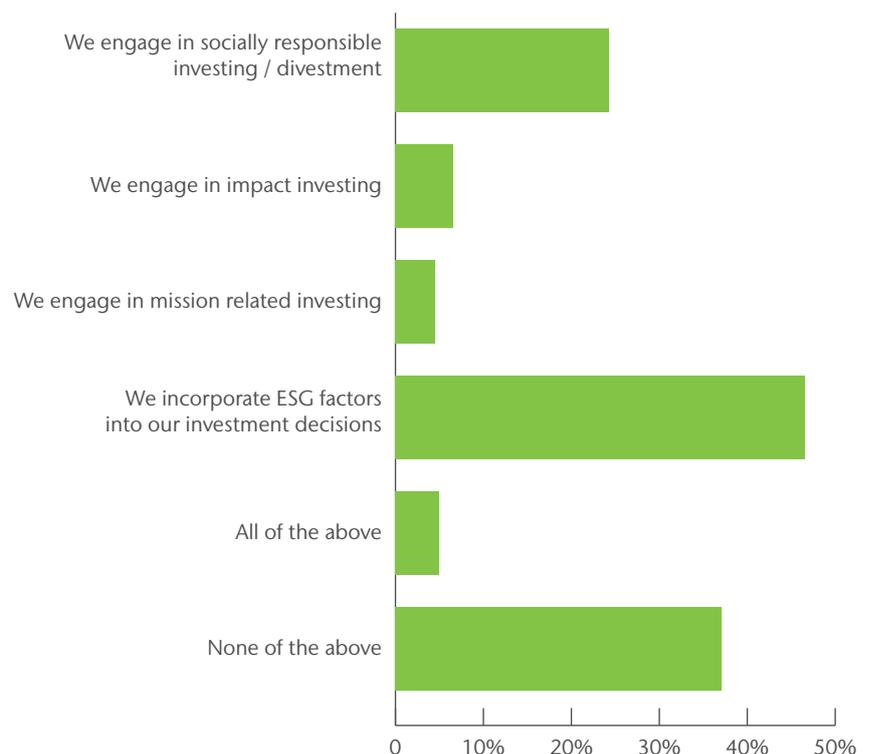
### 4. Mission related investing

*(MRI – positive and negative screens using a combination of the three responsible investment strategies above)*

Examples may include faith-based investing, investing to extend a foundation’s grant making capabilities, etc.

Of the four sub-types of responsible investing above, investors that are active in responsible investing seem to overwhelmingly favor the integration of ESG factors into investment decisions (47 percent) over other types of RI. Socially responsible investing comes in second at 24 percent, mostly based on the strength of respondents from the EU/ Continental Europe, where 40 percent indicate they engage in SRI. Impact investing trails into third (seven percent), bolstered by endowments and foundations, where 12 percent engage in this sub-category of RI.

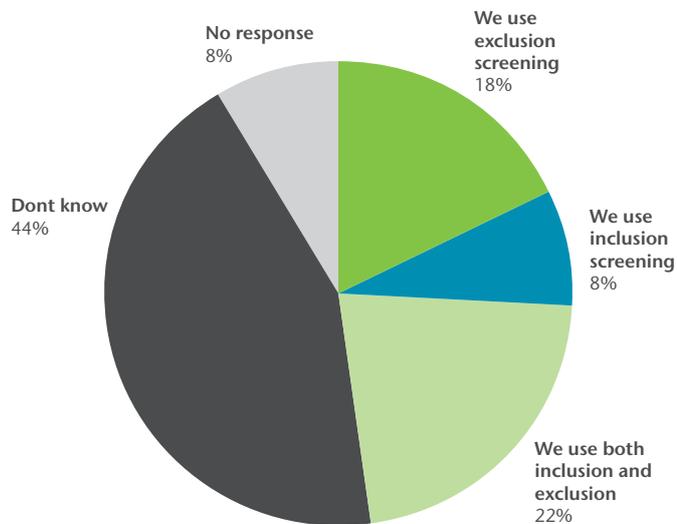
**Figure 12: What types of responsible investing do you do?**



In order to obtain more granular data on responsible investment tactics, and because there is still confusion about RI terminology, we then asked investors in our survey to indicate whether they use exclusionary screening (negative screens), inclusionary screening (positive screens), both or neither. Underscoring the need for clear and consistent terminology, 44 percent of the respondents indicated they didn't know what responsible investment tactics their organizations utilized. Like the responses above, however, investors in the European Union/Continental Europe were by far the most likely to use negative screening, at 36 percent of those polled. Respondents from the UK were the least likely to engage in exclusionary screening, with only 13 percent indicating that is a preferred tactic for responsible investing.

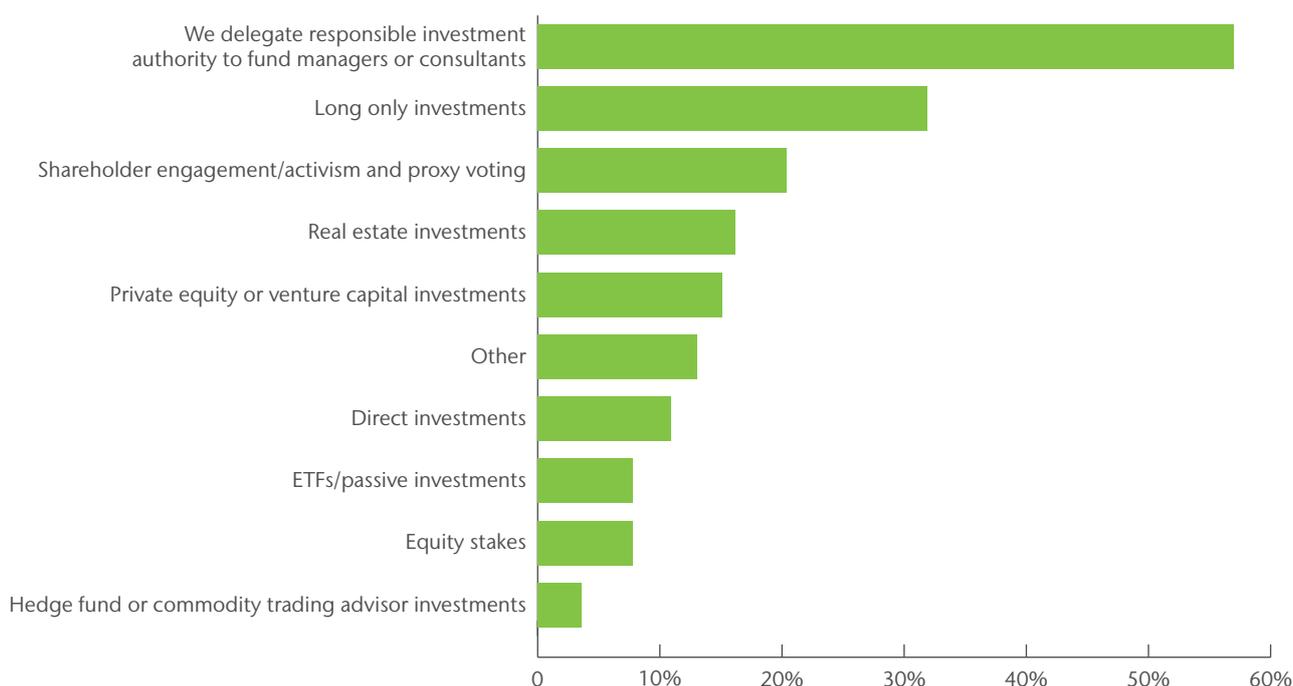
When it comes to how investors express their responsible investing initiatives, we've already established that the majority of organizations delegate RI authority either to outside fund managers or to consultants (57 percent). A number of respondents also indicated that they implement RI practices through their long-only investments (32 percent) or through shareholder engagement/activism or proxy voting (20 percent).

**Figure 13: Exclusions, inclusions or both**



Corporate pensions were the most likely to indicate they delegate RI duties to outside managers, while public pensions were most likely to indicate they utilize long-only investments to express RI beliefs. Investors in the EU/Continental Europe were the most likely to be active investors, with 35 percent of respondents indicating that shareholder engagement was a key element of their RI doctrine. Investors in the US were the least likely to agitate with companies for change. Only 15 percent of investors in the US indicated they engage in shareholder activism.

**Figure 14: How do you express responsible investment initiatives?**

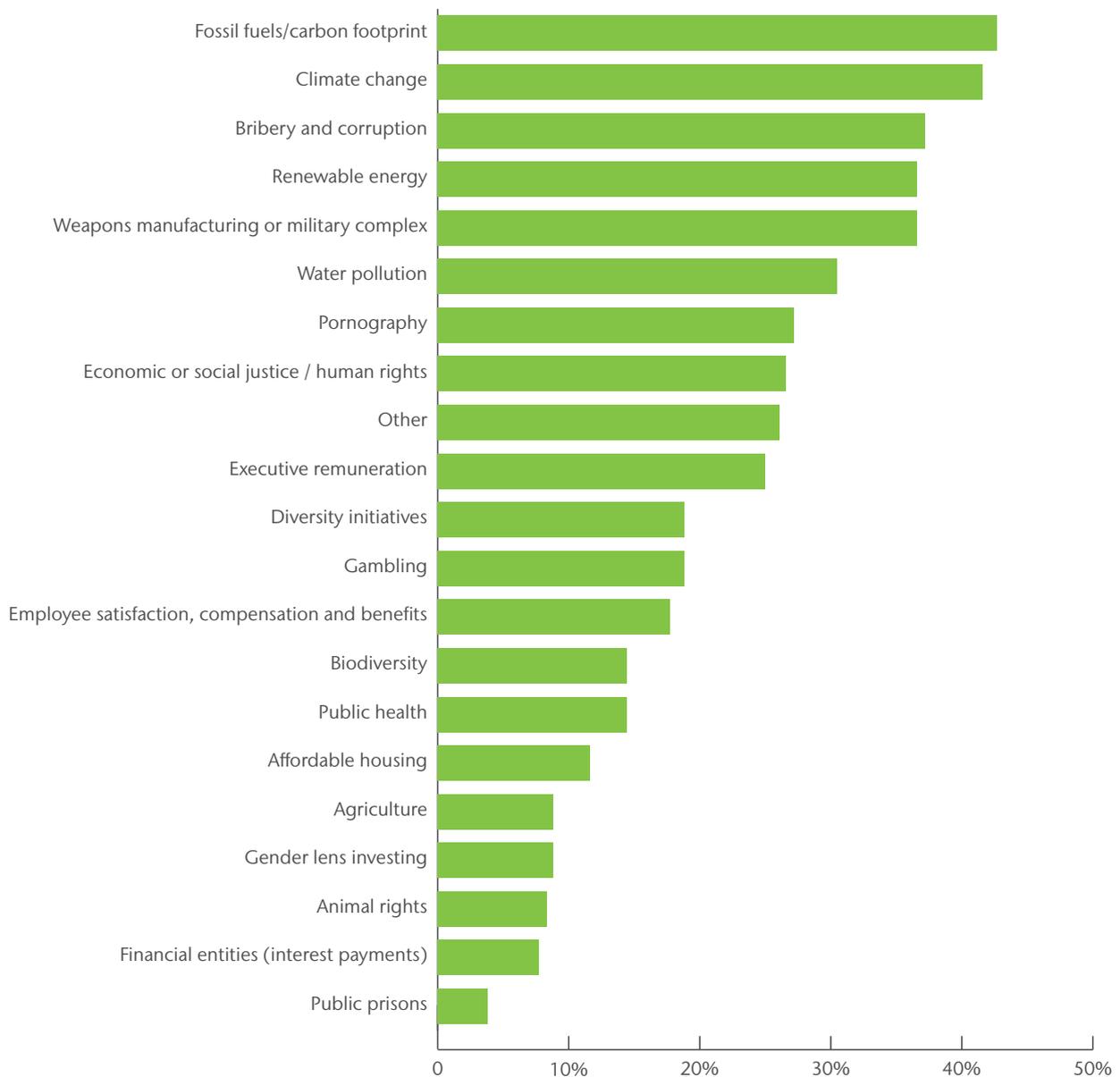


Because three of the four subcategories of responsible investing involve value-based decision making, we also thought it was important to ascertain where organizational values may be coalescing. Based on Aon’s survey, climate change and fossil fuels/carbon footprint seem to be the issues upon which most investors agree, at 42 percent and 43 percent, respectively. Governance issues in the form of bribery and corruption came in third in our poll, with 37 percent of respondents indicating it was a key factor in their responsible investing initiatives. Rounding out the top five concerns were weapons manufacturing or military complex, which tied with renewable energy at 36.5 percent as key concerns. The lowest ranking responsible investing concerns among our respondents were private prisons (four percent), financial entities/interest payments (eight percent), animal rights (eight percent), and gender lens investing and agriculture, tied at nine percent.

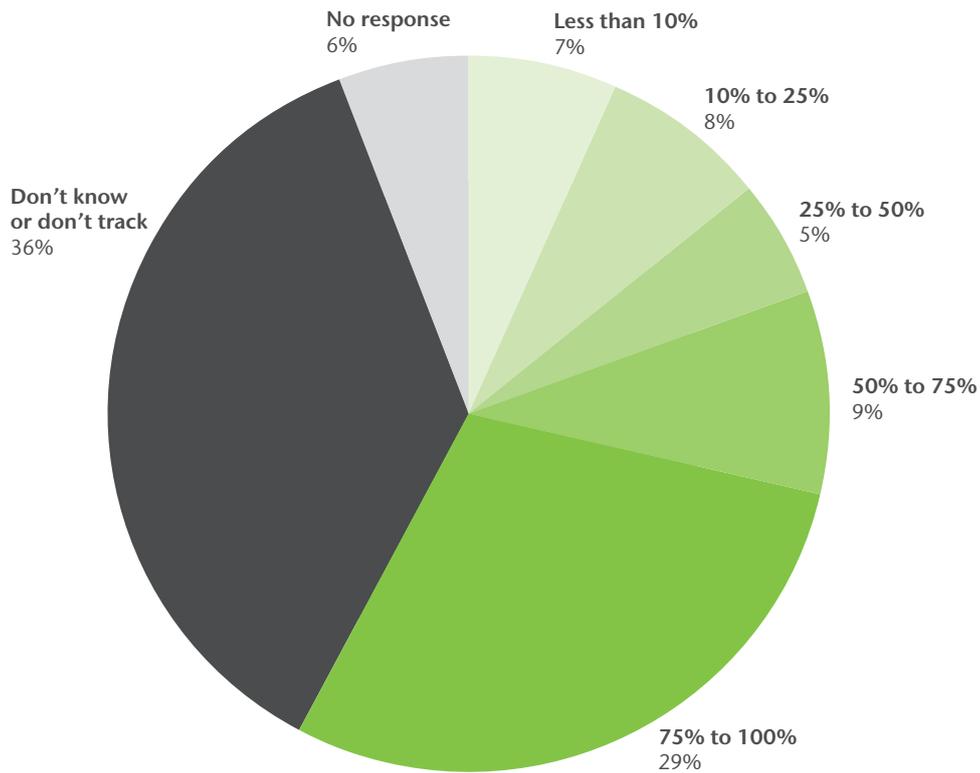
### Top five drivers of responsible investing

1. Fossil fuels / carbon footprint
2. Climate change
3. Bribery and corruption
4. Renewable energy
4. Weapons manufacturing or military complex

Figure 15: Key drivers of responsible investing



**Figure 16: Percent of underlying managers with RI or ESG capabilities**



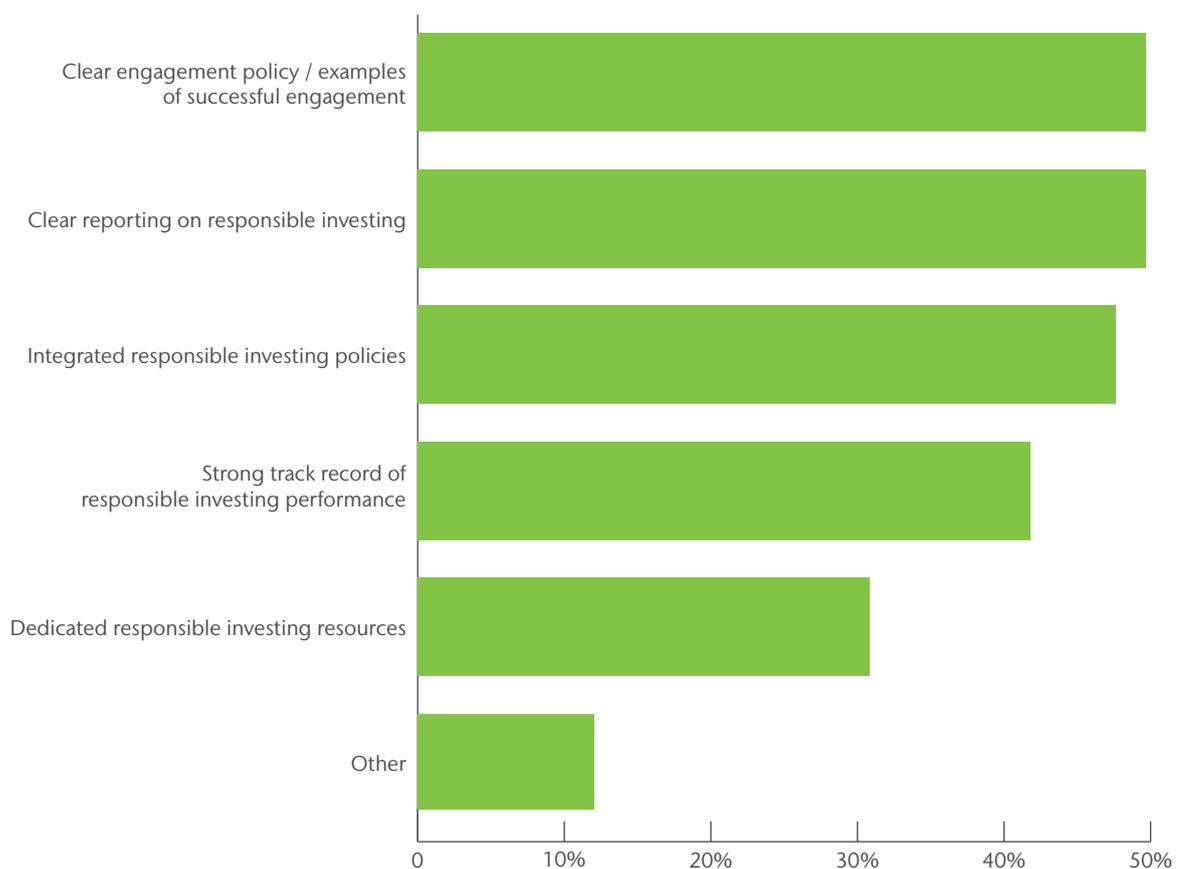
Since so many of the respondents indicated that they utilize external investment managers for responsible investment initiatives, we wanted to know what percent of each respondent's underlying investments incorporated either RI or ESG capabilities. Of those polled, roughly 30 percent have between 75 percent and 100 percent RI coverage through their underlying investment managers. More than a third of those polled don't know or don't track their underlying investment managers' engagement in responsible investing or ESG.

Investors in the EU/Continental Europe are the most likely to follow their underlying managers' RI progress. Only 22 percent of those polled in that region don't know or don't track RI and ESG with their underlying investment managers, compared with roughly 40 percent in the other three geographic areas. Of the types of investors, defined contribution plans are the least likely to track managers' RI practices, with 52 percent indicating they don't know or don't track that data. In comparison, only 15 percent of public pensions and 21 percent of endowments and foundations indicate they are unaware of their underlying managers' RI endeavors.

For those investors that do monitor and evaluate the responsible investment initiatives of their underlying managers, there are four primary factors that make a manager particularly attractive. Having clear reporting around responsible investing and a clear engagement policy with examples of successful engagement topped investors' wish lists, at 50 percent each. The existence of an integrated RI policy was next on the list (48 percent), followed by a strong track record of RI performance (42 percent).

A number of those polled expressed concerns about responsible investment "greenwashing," where a manager expresses an interest in RI but actually does little to implement RI practices in the portfolio. One of the respondents summed up these concerns, stating: "[There is a] potential for ESG focus to be dressed up as marketing without there being any material focus or integration into choices. [It is] difficult to see through this window dressing sometimes. Different clients tend to want different things from responsible investment. Others simply want to tick a box without really understanding what they have." Still others expressed strong concerns about performance, stating that "Many [RI funds] are expensive and underperform common benchmarks and/or comparable index funds," or said that there needs to be a strong and sustainable track record of success.

**Figure 17: Features of top responsible investment funds**

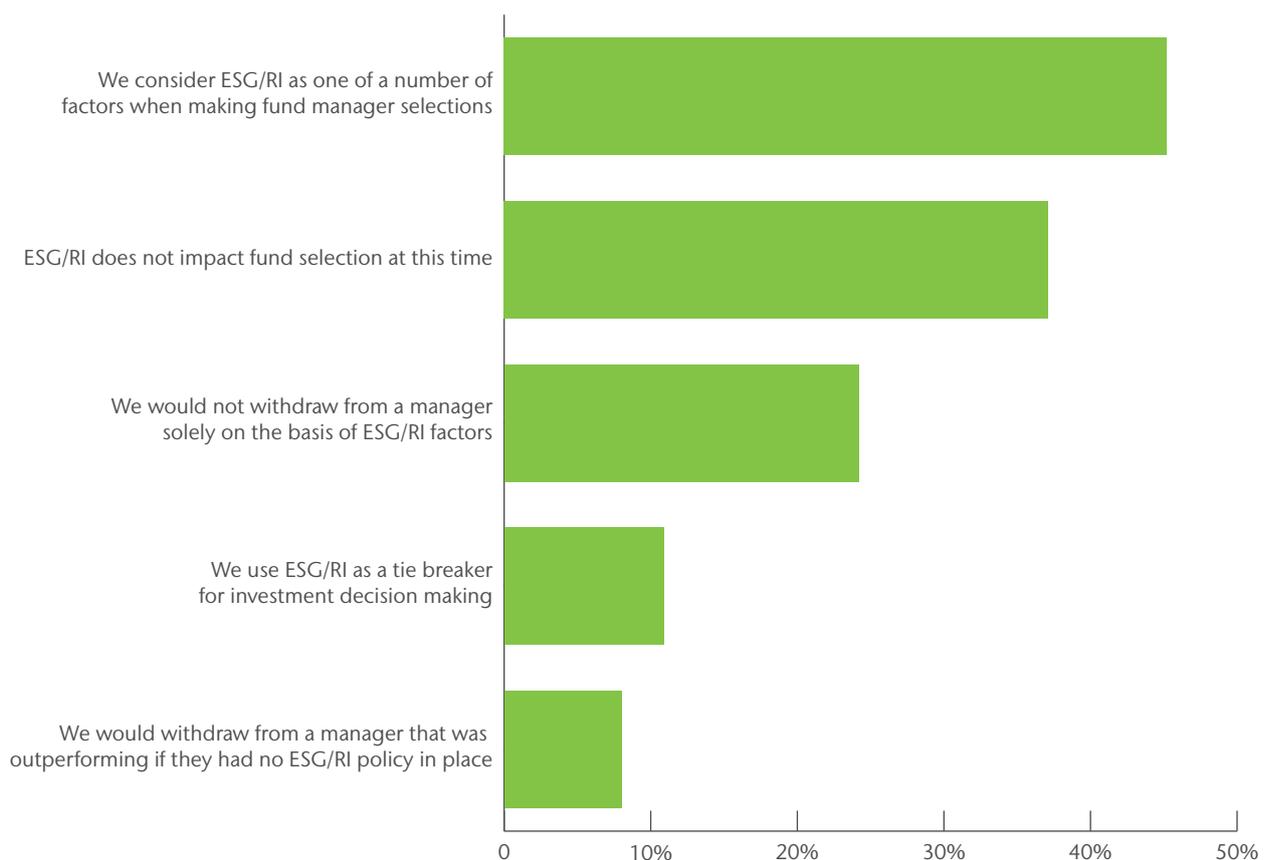


There appears to be a rather odd juxtaposition of solid reliance on external money managers for responsible investing execution combined with some disagreement on what constitutes a good RI fund. As a result, it is probably not surprising to see that very few investors in our survey would withdraw assets from an external manager based solely on a manager's RI or ESG policy or lack thereof. In fact, only eight percent of those polled indicated that failure to have a responsible investing policy was a firing offense.

Of those polled in the US, no investors indicated they would withdraw from a manager who lacked an RI policy, while Canada, the EU/Continental Europe and the UK, the numbers were somewhat higher, at five percent, nine percent and 11 percent, respectively. Endowments and foundations were the most likely investor type to indicate they would withdraw from an outside investment manager with no RI policy, while no defined contribution plan respondents indicated the same.

  
 "Very few investors in our survey would withdraw assets from an external manager based solely on a manager's RI or ESG policy"  


**Figure 18: Hiring and firing funds – does responsible investing play a role?**



# Responsible investing: a look ahead

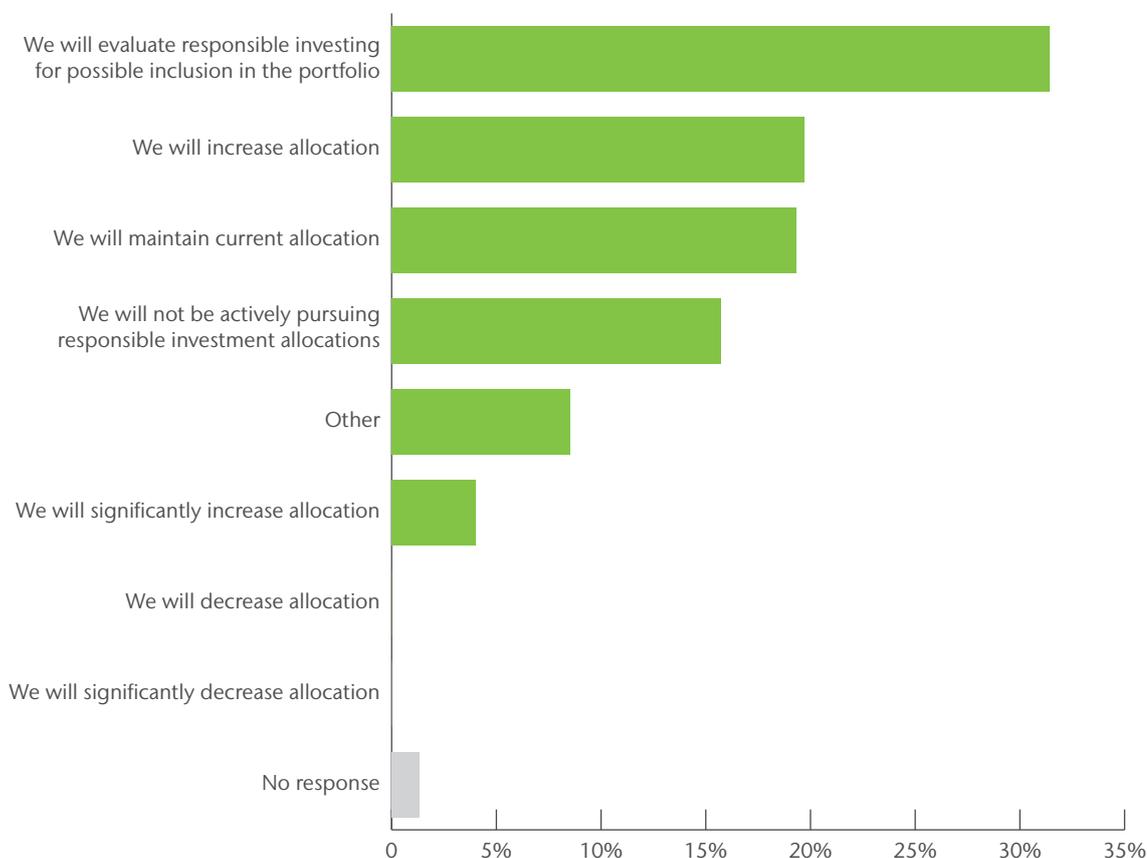
Given that responsible investing is still relatively nascent in many organizations and geographies, our respondents' current RI initiatives are likely not a huge surprise to many. Going forward, it does appear that momentum is in favor of responsible investing, with 31 percent of those polled indicating they will evaluate RI in the future for possible inclusion in the portfolio, and another 24 percent indicating they will increase or significantly increase their responsible investing allocations.

None of those polled indicated they would decrease their RI allocations, although 18 percent did indicate they had no plans to pursue responsible investing in the future. Of the investor types, endowments and

foundations and, perhaps surprisingly based on their relative inaction thus far, defined contribution plans, likely due to pressure from younger participants, indicated they would be the most likely to increase RI allocations significantly, at 13 percent and 10 percent, respectively. Of the geographic regions, investors in the US and Canada were the least likely to indicate they would look to increase responsible investing significantly, at 0 percent and three percent, respectively.

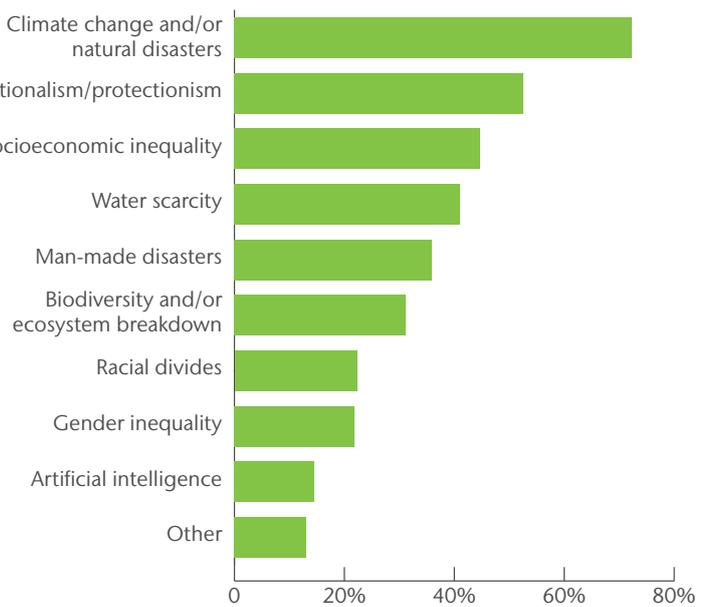
A number of the respondents indicated that they "hope they will consider RI" or that they will likely move "more into impact investing." Still others indicated they were "likely to develop a policy and possibly exclude certain non-ESG investments."

**Figure 19: Potential growth of responsible investing**

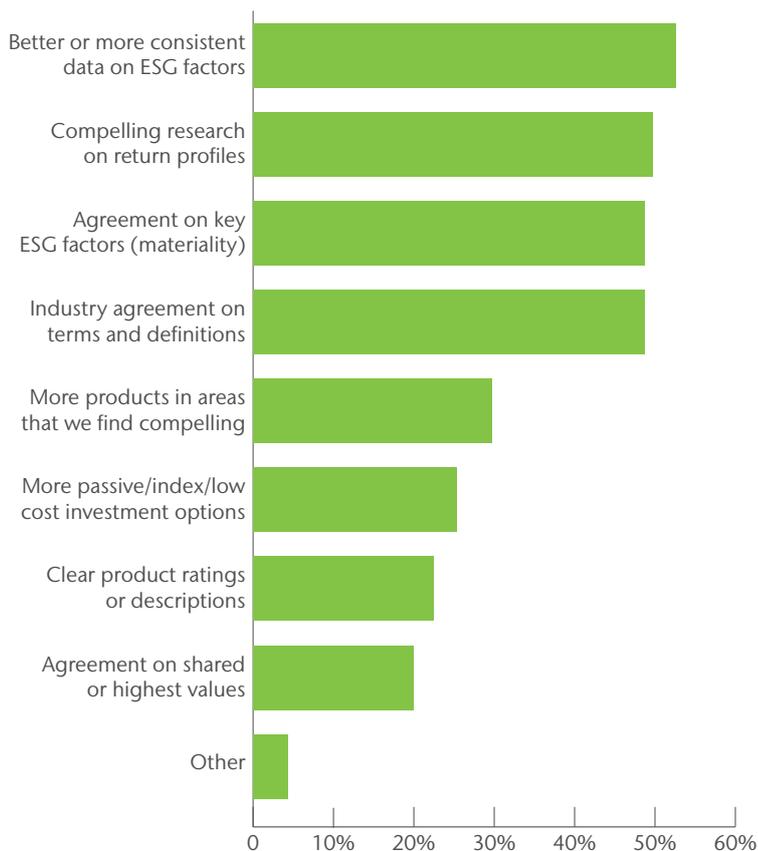


Our poll indicates that investors do worry about a number of global issues and their potential impact on the global economy going forward, which may be part of the motivation to move forward with a responsible investing initiative. For investor organizations in the UK (80 percent), the EU/Continental Europe (76 percent), and Canada (67 percent), climate change is top of mind and causing concerns about future investment trends. For the US investors polled, climate change ranked second among the investment concerns listed, at 48 percent, having been edged by concerns about nationalism at 56 percent. Nationalism also ranked second among investors from the UK and Canada, while the EU/Continental Europe expressed additional concern about water scarcity issues.

**Figure 20: What keeps investors up at night?**



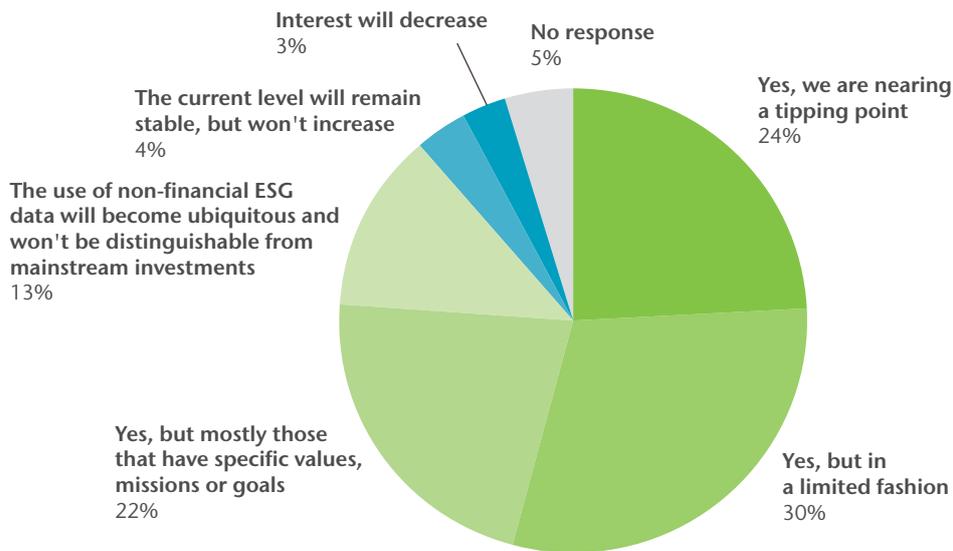
**Figure 21: What would make responsible investing more accessible?**



Still, we know from conversations with investors that many remain stymied by the world of responsible investing, and our investor polling bears that out. The investors in our survey indicated that if there was better or more consistent data on ESG factors, it would be easier to make or strengthen a responsible investment commitment. Given the number of data providers who generate ESG data, the cost of that data and the inconsistencies among that data, it is little wonder that this is of concern to investors who need to make concrete decisions that impact trillions of dollars of investment capital. Said one respondent: “There needs to be industry agreement on terms and definitions, and costs for providing ESG ratings for managers have to come way, way, way down as they are ridiculously expensive. Also the index providers costs for allowing their indices to be used are completely insane and also have to come down.”

A number of investors also indicated they need to see compelling research on the benefits of RI and ESG to return profiles (50 percent), while still others indicate that the lack of agreement around terms and definitions continues to stifle responsible investment efforts (49 percent). Finally, the investors we polled also indicated that agreement on materiality would also be beneficial to their RI efforts (49 percent).

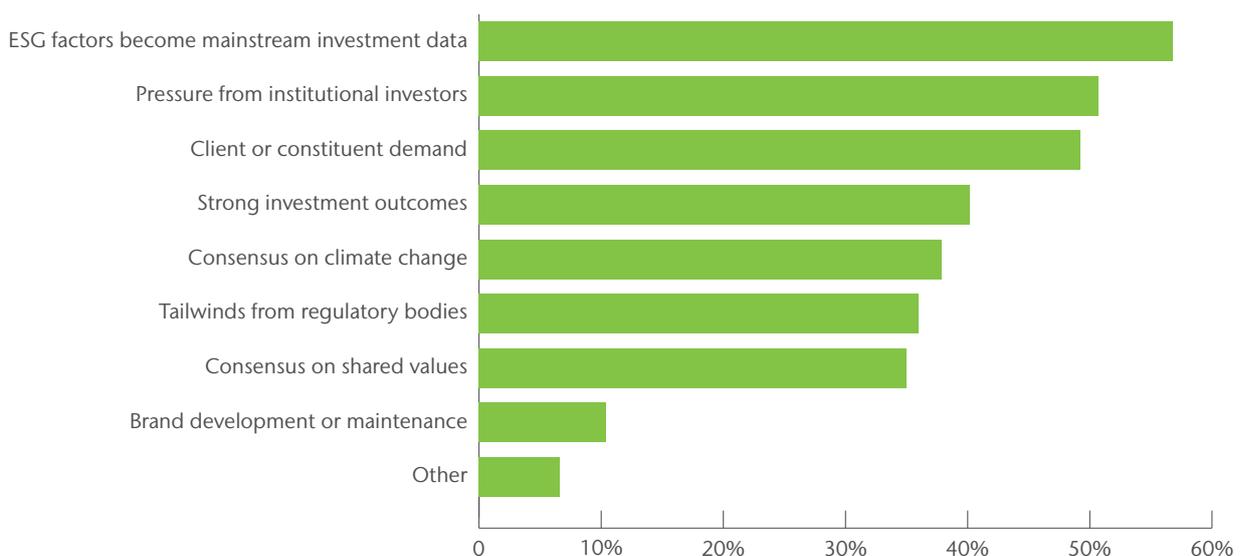
**Figure 22: Is responsible investing on the upswing?**



Despite lingering issues around responsible investing data, definitions and execution, many investors believe we may be reaching a tipping point when it comes to RI. Of the investors we polled, 24 percent indicated we are reaching a tipping point for responsible investing, with investors in the EU/Continental Europe the strongest in these beliefs (39 percent). Others believe that RI will continue to be a force in investing, but in a limited fashion (30 percent) or will be used mainly for organizations with specific missions or goals (22 percent).

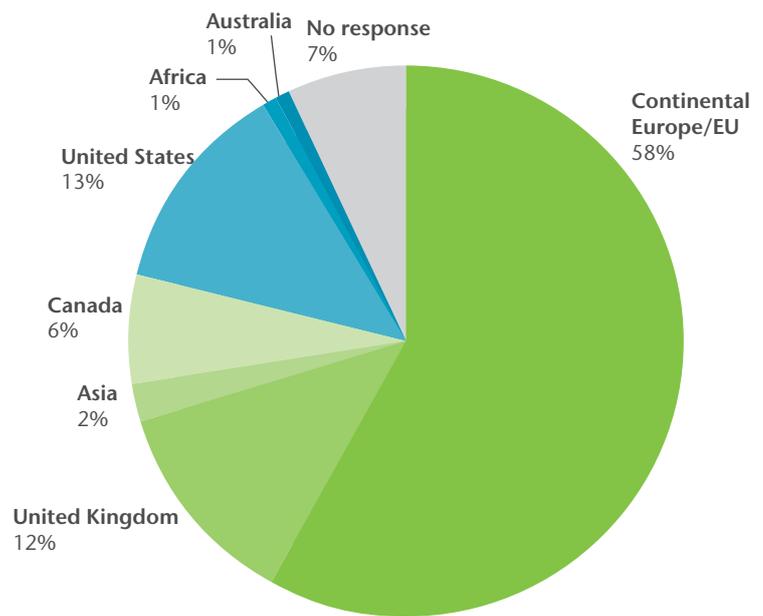
An additional 13 percent of investors believe the use of non-financial ESG data will become standard in the investment world, and 57 percent of the investors we polled believe that ESG data will go mainstream and be a key driver of responsible investing going forward. Other factors likely to increase the use of responsible investing in the future include pressure from institutional investors (51 percent) and client or constituent demand (49 percent).

**Figure 23: Key drivers of responsible investing**



After the deluge of data in this paper, it is probably not surprising that the investors we polled expect the EU/Continental Europe to lead the charge when it comes to responsible investing in the future. More than half of the respondents indicated that Europe was likely to lead investors towards a more responsible investing future. What is interesting, however, is the breakdown of second place responses. Investors from the UK placed themselves firmly into second place on this question, at 24 percent. Investor from Canada placed themselves into the second spot for RI, at 23 percent, while investors from the US heralded **themselves** as second most important for potentially driving RI forward, at 33 percent.

**Figure 24: Responsible investing initiatives by geography**



## Conclusion

One thing is clear, no matter who leads the charge towards responsible investing; RI is an initiative that appears to have momentum. Although there are a number of issues that have yet to be conquered, including definitions, performance concerns, value judgments, staff and execution, given demographic changes, regulatory pressure, long-term investment initiatives and other factors, responsible investing is clearly here to stay. Aon looks forward to monitoring RI trends and developing solutions for global investors to help meet their long term responsible investing goals in the future.

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Meredith Jones is a Partner in Aon's Global Investment Center and is based in Nashville, TN. She currently oversees responsible investment initiatives, as well as Aon's emerging and diverse manager programs.

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