News From Aon

Interest in Responsible Investing Among Institutional Investors Continues to Grow

However, New Aon Survey Shows Ongoing Challenges Related to Definitions, Data and Materiality

TORONTO (June 12, 2018) – Regulatory changes, increased availability of quality data, and demographic shifts resulting in more Millennials and women looking to align their values and assets, have prompted a dramatic upsurge in the number of institutional investors who are interested in responsible investing initiatives. This is according to a new survey from Aon, a leading global professional services firm providing a broad range of risk, retirement and health solutions.

Aon's survey of 223 institutional investors around the world—which include endowments, foundations, public and corporate pensions and defined benefit plans—found that 68 percent consider responsible investing to be important to their organization to some degree. Forty percent have already developed a Responsible Investment ("RI") policy for use in making investment decisions, and another 14 percent are in the process of developing a policy.

Of those that have implemented an RI initiative within their organizations, the most popular reasons were:

- A belief that the incorporation of non-financial Environmental, Social and Governance (ESG) data resulted in better investment decisions (39 percent)
- A desire to impact certain global issues, such as the carbon footprint, climate change and water issues (26 percent)

"While responsible investing is still relatively nascent in many organizations and geographies, overall interest in these initiatives has skyrocketed over the past few years," said Meredith Jones, partner & head of Emerging Manager Research at Aon. "We've gone from clients asking sporadically about responsible investing to full-scale development of policies, implementation of responsible investing initiatives and a veritable sea change in how investors and asset managers incorporate and evaluate responsible investing data into their investment strategies."

Jones notes that while Aon expects to see interest in responsible investing continue to grow, more will need to be done before there will be widespread global adoption. This includes clarity about definitions, access accurate data and measurement, concerns about performance, and regulatory pressure.
When asked what would make responsible investing more accessible, the majority of survey respondents cited standardization and better ROI measures:

- Better or more consistent data on ESG factors – 53 percent
- Compelling research on return profiles – 50 percent
- Industry agreement on terms and definitions – 49 percent
- Agreement on key ESG factors (materiality) – 49 percent

Attitudes towards responsible investment vary by region
Aon's survey found there is a geographic split when it comes to attitudes towards RI, with noticeably more activity in the EU, and particularly the UK, than in the US. Canada, meanwhile, falls in between – less engaged in RI than the UK and EU, but substantively more active than the US.

For example, 80 percent of investors in the UK say that climate change is the major RI-related investment concern, followed by 76 percent of those in the EU and 67 percent of Canadian investors; in the US, climate change ranked second among investment concerns, cited by only 48 percent of respondents, and behind concerns over economic nationalism (56 percent). Similarly, in the US no investors said that they would withdraw from a fund manager who lacked an RI policy; five percent of Canadian respondents, and 11 percent of UK investors, said they would do so.

"RI is one of the most talked-about subjects among institutional investors in Canada, particularly endowments, foundations and others with a public interest mission, but we're seeing more engagement among large corporate investors as well," says Calum Mackenzie, Partner, Investment Consulting, Aon. "Institutions are increasingly realizing the link between well-governed companies and better investment performance, and the spectrum of action ranges from increased monitoring of ESG to a more active approach to proxy voting and dedicated ESG-focused investment mandates."

The Canadian institutional focus on RI extends to investment managers as well, Mackenzie notes. "Anecdotally, we see investment committees spending more time dedicated to ESG discussions, and they are questioning managers vigorously about their ESG policies. That speaks to how important the issue has become to institutions, and it's one reason we now incorporate an ESG rating into our manager evaluation process."

Other regional variations in the survey findings:

- 47 percent of UK and European investors have an RI policy in place, compared to just 30 percent of US investors.
- Investors in Europe were the most likely to have dedicated RI staff (28 percent) and UK investors were most likely to withdraw from a manager with no RI policy in place (11 percent).
- Survey respondents expect Europe to lead the RI charge going forward but were split on who might come in second. Interestingly, each geography picked themselves as the RI "runner up." Investors from the US placed themselves as second most important for driving RI forward at 33 percent, UK investors placed themselves firmly in second at 24 percent, while investors from Canada placed themselves into the second spot at 23 percent.
- The most common type of RI implementation was ESG integration into investment strategies (47 percent). Negative screening, also known as Socially Responsible Investing ("SRI"), was a distant second at 24 percent. However, the SRI numbers were bolstered by strong uptake in Europe (40 percent), and the other three geographies were less likely to use SRI as an RI tool. Impact Investing is used by 7 percent of those polled.
- Investors in Europe are the most likely to be active owners of shareholder engagement (35 percent) while the US was the least likely (15 percent). In the UK, 20 percent of investors use shareholder engagement to express their RI policy, while almost 18 percent of Canadian investors do the same.

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