

ESG:

What do clients want now from the wealth management industry?

ESG — which until not so long ago was considered mostly the concern of millennials and environmentalists — has moved decisively into the mainstream.

Against a backdrop of market turmoil, data from Morningstar showed that sustainable sector funds attracted record inflows from U.S. investors of more than \$10.5 billion in the first quarter of 2020.

The US wealth management industry has been braced for an associated surge in client demand — and is starting to see this happen. During a virtual round-table we hosted in June, a range of participants confirmed that client interest in ESG is manifesting in multiple ways, driven by environmental concerns but accelerated by the COVID-19 pandemic. Not all of this relates to investing. Wealth firms are being questioned on their record in reducing carbon emissions, their commitment to social causes and how they are using their shareholder votes to achieve positive impact.

Our own data leads us to agree there is a significant opportunity now for firms to capitalize on clients' appetite not just for integrating ESG principles into their investment process but actually investing to achieve sustainable goals. Contrary to some of the myths, a growing number of clients across all generations are paying attention. However, they will need more effective education and guidance from firms to improve their understanding.

Clients want to invest in line with their values — and do more than just 'give out of guilt'

Our recent research partnership with the Money Management Institute surfaced that advisors consistently under-estimate the importance of values to their clients and have failed to reflect values (as opposed to goals) in financial planning and investment management discussions.¹

They are missing an opportunity: alignment on values is a critical success factor for the overall relationship.

Our research released in 2018 from high-net worth clients in the U.S. shows their primary motivation for investing sustainably is to avoid causing harm. However, an important secondary driver is the desire to be true to their values [Figure 1].

The younger generation is most interested in using sustainable investments to advance specific causes they care about and avoid doing harm.

Figure 1: Values-based investing is on the rise, across age groups



Source: BNP Paribas & Aon, Global Entrepreneur Report 2018

You mentioned that you have some investments that are geared towards achieving social or environmental outcomes. What is your specific motivation for choosing to invest in this way? (N=202)

¹ Money Management Institute and Aon, *The Significance of Personal Values in Wealth Management*, June 2020



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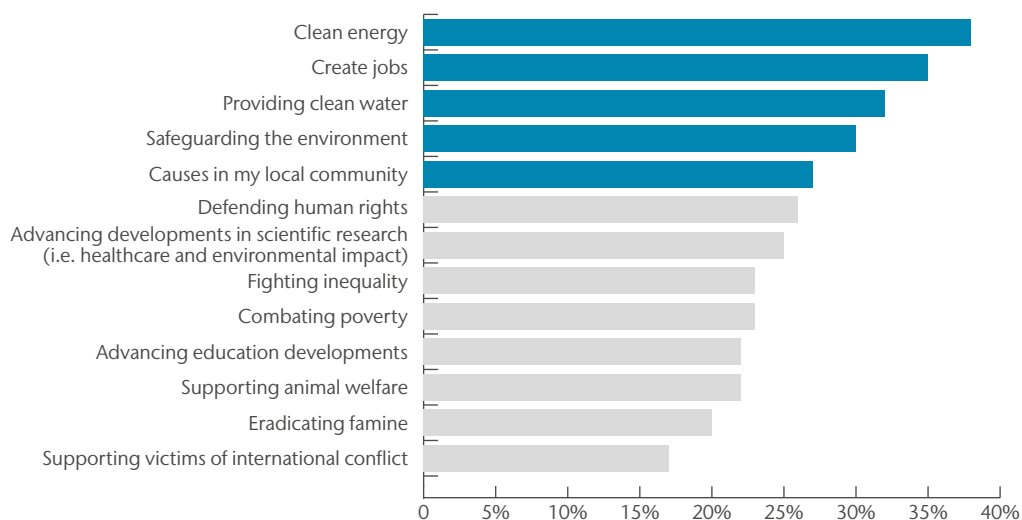
Client interest has grown in the last 18 months, but climate change isn't the only reason

If the cross-generation trends are surprising to firms, it may be because change is happening so quickly. Many investors have only recently become galvanized. In the U.S., 70% of HNW clients say they are now more willing to consider sustainable investments than they were 18 months ago.

Over that time, the climate crisis has never been far from news headlines, however, it would be a mistake to attribute changing attitudes entirely to environmental concerns.

Even before the pandemic, clients were increasingly troubled by the human impact of economic issues, including a lack of rewarding job opportunities [Figure 2]. This is not a trend likely to go away quickly, as the effects of a deep global recession become visible in the communities in which they live.

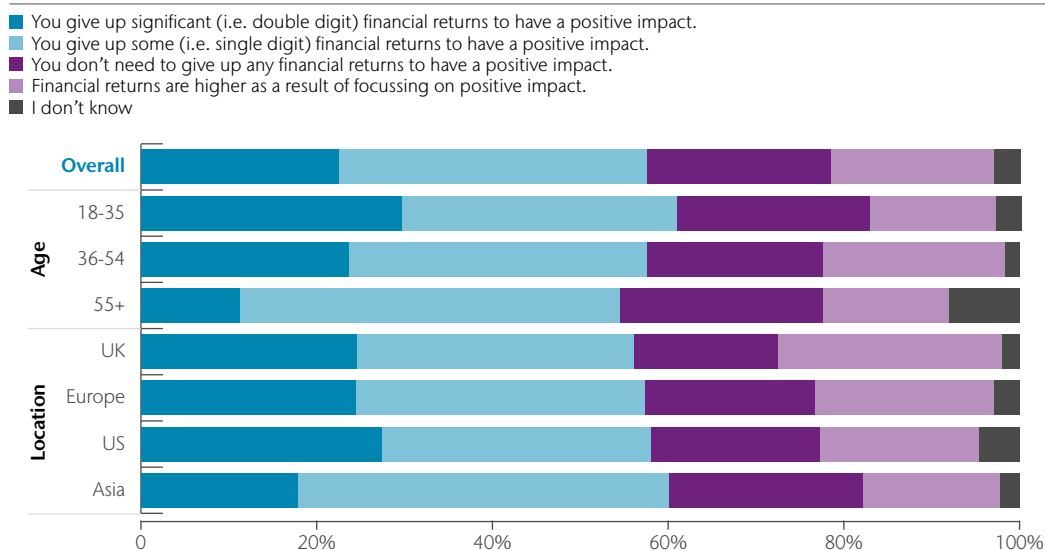
Figure 2: Societal issues are particularly important to US clients



Source: BNP Paribas & Aon, Global Entrepreneur Report 2018
You mentioned that you are currently investing to promote specific good causes. Are you seeking to have an impact on any of the following areas? (N=202)

Capitalizing on this appetite will however require a different communications focus. The underwhelming consensus in clients' minds is that sustainable investments are both risky and offer doubtful potential for significant returns [Figure 3]. Nevertheless, they remain interested in principle, offering an education opportunity to firms that have a high conviction in this area.

Figure 3: Most clients assume sustainable investments generate worse returns in the long-run



Source: BNP Paribas & Aon, Global Entrepreneur Report 2020
Please review the statements below. On balance, which best aligns with your perspective? "In the long-term, over 5 years, investors..." (N=1,132, Global respondents)

The power of the human touch

Our data shows that clients are more alert than before to opportunities for using their wealth to generate impact. But they will need active guidance in understanding how they can achieve their sustainability objectives. There will be some priorities for which there are well-developed solutions and others where there is no business model to achieve impact and returns at the same time, requiring a philanthropic approach instead.

This information gap offers a golden opportunity for marketing leaders who are adept at the kind of storytelling required now, rather than communicating through a technical investment lens that focuses heavily on performance and track record.

ESG has indeed moved into the mainstream. Yet clients are looking for a human approach to support them as they go through the journey from interested party to active investor.

For more information

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Aon's Client Insight Solutions

Our Client Insight team specializes in understanding ultra/high net worth individuals and the financial institutions with which they interact. Using quantitative and qualitative research methodologies, our solutions cover Client Experience, Brand Tracking, Thought Leadership, and Strategic Advisory and Research, all designed to help drive business growth and performance.

Together with our colleagues across Aon's Human Capital Solutions Wealth Management practice, we use our market data and analytics to optimize the relationship between delivering value to your clients, employee rewards, and shareholder returns. Learn more at aon.com/performance-solutions/Client-Insight

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