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Introduction

For many, the COVID-19 pandemic has been a time of introspection and a catalyst for change. A range of themes have crystallised, emerging as both challenges and opportunities to be addressed — from climate change and biodiversity loss, to cybersecurity, to socioeconomic and racial inequality.

As the impact of the pandemic becomes clearer, and the strain on the environment and society more visible, the influence of responsible investing continues to grow. The COP26 conference, which brought together global leaders, policy makers and investors, is a testament to this shift in attitudes and momentum.

Indeed, since our last research study in 2019, interest in responsible investing has increased. Investors are now three times more likely to say that responsible investing will soon become the norm and indistinguishable from mainstream investing. Many more are now pursuing responsible investments. This includes establishing or reviewing responsible investment policies, hiring professionals dedicated to responsible investing and increasing allocations to responsible investments.

Their activities increasingly include Responsible Investing (RI), the umbrella term that encompasses a range of different approaches — including Environmental, Social and Governance (ESG) integration, Mission-Related Investing (MRI), Impact Investing and Socially Responsible Investing (SRI) — and put emphasis on active ownership and good stewardship.

In this third installment of Aon’s Global Perspectives on Responsible Investment we continue to explore evolving attitudes, behaviours and investment choices of institutional investors globally.

To make the insights more actionable this year, we have set out a more thematic, three-part approach to our report. We identify the contribution, commitments and impact investors expect to make; and explore the beliefs, policies and practices underpinning those expectations. And finally, we consider investors’ predictions for responsible investment as well as their own priorities and plans.

Since our second survey in 2019, both the attitudes and actions of respondents have continued to evolve. In some areas that progression has been dramatic. Though the positive direction of travel is evident, the responses to our survey highlight that many investors remain at very different stages of that journey.

“Investors are now three times more likely to say that responsible investing will soon become the norm, indistinguishable from mainstream investing.”
Active awareness and appetite for change is visible. Our research tracks an increase in the proportion of institutional investors dedicating resources to responsible investment, and many anticipate it will play a bigger role in their investment portfolios in the future. A similar trend is observed in the market among other stakeholders, such as pension plan beneficiaries and scheme members, who are increasingly calling for their investments to have strong ESG credentials.

While debate continues about whether doing well (financially) and doing good (morally) need not be mutually exclusive, our survey finds that more than two-thirds (69%) of respondents with exposure to responsible investments are satisfied or very satisfied with their returns to date. They are also reflecting more on what it means to be ‘responsible’. Specifically, many are actively considering what impact their investment approach can have on society and the environment.

We know that many institutional investors are revising their approach to asset allocation, fund manager research, investment screening and portfolio management. Some, for example, are doing it through ESG integration, by integrating forward-looking ESG criteria alongside other investment factors; others, through Engagement, proactively engaging their fund managers to identify opportunities that align with broader goals and targets, such as delivering net zero emissions or supporting the UN’s Sustainable Development Goals (SDGs).

And, while reporting and regulatory requirements may differ globally, it is nonetheless encouraging to see stakeholders from myriad backgrounds show willingness to tackle shared challenges together.

We hope you enjoy the insights provided by this report. If you would like to discuss any of the topics or issues raised, please don’t hesitate to get in touch.

As ever, we would like to thank this year’s participants for their time and insightful contributions.

Tim Manuel
Co-head of Responsible Investment, UK
To create this report Aon relied on the following information:

- A quantitative online survey with global institutional investors, including Aon clients, was conducted between April and June 2021.
- The survey captured sentiments of 271 investment professionals globally.
- Survey responses were aggregated and analysed to create summary results.
- Where appropriate, 2019 survey data was used to track change. In 2019 answering every question was not mandatory, so base sizes may vary.

The distribution of respondents, across geographical, asset size and investor entity types, is shown to the right.

We have categorised respondents into the following geographical regions:

- The United Kingdom (UK).
- The United States (US).
- Europe, encompassing responses from: Austria, Belgium, Cyprus, France, Germany, Netherlands, Spain, Sweden, Switzerland.
- Rest of the World (ROW), encompassing responses from: Australia, Brazil, Canada, Hong Kong, Mexico, New Zealand, Singapore.

*Other comprises of entities like family offices, health organisations, religious organisations and others.

Percentages may not total 100 due to rounding.
Key findings

56% say ESG investing will soon become the norm

56%

Climate change (61%)

Socioeconomic inequality (27%)

Cyber risk (25%)

are seen as top investment concerns globally

66%

Over a third have personnel dedicated to responsible investment

66%

have some of their portfolio allocated to responsible investments, with many more intending to increase future allocation

55%

55% believe responsible investments will lead to better risk-adjusted returns

1 in 6

1 in 6 have committed to aligning portfolios to net zero

A further 42% intend to align their investment portfolios to net zero before 2050

Net Zero

1 in 4 is responding proactively in anticipation of regulation

80%

80% Engagement with responsible investing through ESG integration has doubled since 2019 (41%)

47%

47% want to see more consistent data on ESG factors

69%

69% Most respondents with exposure to responsible investments are either satisfied or very satisfied with their returns to date
Investors’ concerns around major ESG issues continue to rise, and many are in the process of addressing at least some of these in their investment strategies.

Most respondents continue to view responsible investment considerations as ‘important’, ‘very important’ or ‘mission critical’ to the entity for which they invest.

More than two in five (42%) intend to align their investment portfolios to net zero emissions before 2050 — and one in six (16%) have already made this commitment.

45% globally have either introduced climate-related metrics or targets for their portfolio or are very likely to do so in the next 12 months.

One of the main reasons for including responsible investments in portfolios is the perception that they will lead to better risk-adjusted returns when compared to ‘traditional’ investments. Over half (55%) of respondents align with this view.

Other reasons include a desire to make a positive societal or environmental impact through their investments (42%) and better alignment with stakeholders, such as the corporate sponsor, employees or wider public and regulators (42%).
Beliefs, policies and practices

80% of respondents globally that do engage with responsible investing do so through **ESG integration**.

More than two in five (42%) say they **have a responsible investing or ESG policy in place and are actively making changes to investments as a result**. The proportion rises to 48% in the UK and Europe and dips to 20% among US respondents.

Just over a third (34%) of respondents indicate that **they have personnel dedicated** to searching for, evaluating or monitoring responsible investments.

Respondents with exposure to responsible investments are **either satisfied (59%) or very satisfied (10%) with their returns to date**. Satisfaction is consistently high across the UK, Europe and the US.

38% of respondents globally say that **consultant recommendations or high ESG ratings make a fund manager or product particularly attractive from a responsible investment perspective**.

Respondents who do not incorporate or plan to incorporate responsible investment strategies are **mostly concerned about lack of good data (16%)** and consensus about the **impact of responsible investing on investment returns (14%)**.
Predictions, priorities and plans

Regulation continues to drive action around, and adoption of, responsible investment strategies.

Globally, 44% say they are implementing responsible investment strategies to align with regulations in their jurisdiction on climate change, ESG or other responsible investment issues (vs 31% in 2019).

Respondents generally feel that responsible investing or ESG evaluations should be a shared responsibility between the fund managers with whom funds are placed and their own organisation — however, consultants also have an important role to play.

Respondents agree that responsible investing will primarily be driven by two key factors — climate concerns and regulation. Globally, more than two in five feel consensus on climate change (45%) and policy action from regulatory bodies (42%) will drive further awareness and adoption.

For responsible investment to become more compelling, nearly half of respondents want to see better or more consistent data on ESG factors (47%) and 40% want greater industry agreement around definitions.

This suggests that while reliable and consistent data can pose a challenge to decision-making in many areas, the regulatory framework is key to rapid progress and adoption of responsible investment strategies.

Read the full findings on Predictions, priorities and plans
Contribution, commitments and impact
Governments, regulators and international organisations globally have stepped in with ambitious plans for social, economic and environmental reform, including initiatives like the Green New Deal, the Great Reset and Build Back Better. These initiatives focus on governmental and regulatory programs intended to improve sustainability.

Among survey respondents, climate change (61%), for example, is perceived to be the most pressing global trend from an investment perspective (Figure 1). Socioeconomic inequality (27%) comes in second, while the increasing incidence, scale and sophistication of ransomware attacks, often targeting critically important companies in sectors like infrastructure, agriculture and healthcare, put cyber risks and artificial intelligence into the number three spot (25%). As in prior surveys, the proliferation of nationalism (22%) remains among top investor concerns globally.

In the wake of a global pandemic, and given an aging global population, for this year’s survey we added ‘health crises’ as an area for potential concern — nearly one in five (18%) respondents, globally, indicated it was near top-of-mind.

We did note some regional nuances in the data. For example, respondents in the US (16%) are approximately five times more likely to mention racial inequality as a concern than their counterparts in UK (5%) and Europe (3%). The divergence is likely due to ongoing activity, and growing awareness, of groups like Black Lives Matter and #MeToo.

Respondents representing defined contribution (DC) plans globally tend to have more concerns, on average, than their defined benefit (DB) peers. DC investors pay attention to socioeconomic inequality and cyber security. This may be because DC activity around ESG is often driven by plan participants, who are increasingly younger and more engaged on environmental and social issues.

Figure 1: Climate change remains the primary cause for concern globally, while other ESG issues see less attention

[Diagram showing climate change and other ESG issues by geographical region and plan type]
Commitment to act

80% globally say that responsible investment considerations play an important or very important role in their investment decision-making. And a further 10% say it is mission critical. These results suggest that institutional investors continue to recognise the influence of their investment choices and how these intersect with risk management, in the case of ESG, or with their long-term mission and values for other responsible investment strategies.

To further demonstrate their commitment to change, respondents are exploring a range of ESG metrics to advance towards their portfolios. For example, 58% globally say they have either introduced climate-related targets for their portfolio or are very likely to do so in the next 12 months (Figure 2). And more than two-fifths (42%) intend to align their investment portfolios to net zero emissions before 2050. This is a particularly prominent stance in the UK, where over half (53%) of respondents say they plan to align their investment portfolios with net zero emissions by 2050.

Respondents representing UK DC plans (32% vs 16% DB) show a particularly strong commitment to aligning portfolios to net zero targets. This is likely to be driven by several factors, such as public pressure and media scrutiny, as well as regulatory requirements, which aim to more effectively understand and address beneficiaries’ concerns.

“80% globally say that responsible investment considerations play an important or very important role in their investment decision-making. And a further 10% say it is mission critical”

Figure 2: Investors are beginning to align their investment portfolios to 2050 net zero emissions

<table>
<thead>
<tr>
<th>Yes</th>
<th>No, but we intend to do so in future</th>
<th>No, and no plans to do so in future</th>
<th>N/A</th>
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<table>
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<tr>
<th>Global</th>
<th>By geographic region</th>
<th>By UK plan type</th>
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<td>2021 (n=271)</td>
<td>Europe (n=35)</td>
<td>UK (n=155)</td>
</tr>
<tr>
<td>41%</td>
<td>43%</td>
<td>28%</td>
</tr>
<tr>
<td>16%</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>8%</td>
<td>3%</td>
<td>22%</td>
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Moving from climate change specifically to responsible investment more generally, two-thirds of respondents indicate they already have some of their portfolio allocated to responsible investments (Figure 3).

Respondents across all the investor groups indicated they will increase their allocation to responsible investment in the future. Over half (55%) indicate that they will either increase or significantly increase allocations; this includes 50% of DC plans and 44% of DB plans globally.
For many, the appeal of responsible investing centres around financial, risk and impact-related considerations. One of the main reasons cited for engaging in responsible investments is a perception that — through strong corporate governance, ESG Enterprise Risk Management, or long-term sustainability-linked objectives — they can improve financial resilience and lead to better risk-adjusted returns when compared to ‘traditional’ investments. Over half (55%) respondents in our survey align with this view.

Other reasons include a desire to make a positive societal or environmental impact through their investments (42%) and better alignment with stakeholders, such as the corporate sponsor, employees or wider public and regulators (42%). Understanding the triggers and drivers that encourage respondents to pursue responsible investing will help investment professionals create more relevant products, formulate more resilient strategies and more effectively communicate their expertise to clients. This creates a compelling opportunity for those who want to embrace sustainability, impact and other responsible investment techniques.
Beliefs, policies and practices
Many investors are interested in developing a more structured approach to integrating ESG / responsible investment into investment portfolios and processes. For example, 42% of respondents say they have an ESG policy in place and many are actively making changes to investments as a result of that policy. The proportion rises to 48% in the UK and Europe, and dips to 20% among US respondents (Figure 5).

Driven by our UK respondents, global DC plans are ahead of global DB plans in making portfolio changes as a result of their ESG policies, with 43% of DC plans (vs. 33% of DB plans) indicating that they have an ESG policy in place and have adjusted their portfolios as a result. UK DC pension schemes lead the way with 52% saying they have a policy in place and have made changes, compared to 14% of US DC schemes. In comparison, 37% of DB plans report that they do have a policy but it has not yet resulted in changes to their investments.

It is important to note that, roughly one fifth (21%) of respondents have no responsible investment policy in place.

Figure 5: Investors continue to show interest in developing a structured approach to responsible investment

- We have a policy and we have made changes to our investments as a result
- We have a policy, but it has not yet led to changes in our investments
- We are in the process of putting a policy in place
- We do not currently have a policy in place
- NA

Percentages may not total 100 due to rounding.
Putting policies into practice

Many investors are reflecting on what it means to be responsible and what impact they can achieve. For example, over half (51%) globally indicate they are either somewhat or very likely to develop their responsible investment policy over the next 12 months to encourage greater investment for social or environmental impact. The proportion rises to 54% among global DC pension plans (vs. 45% for DB plans).

The majority (80%) of respondents globally say they currently engage with responsible investing through ESG integration (Figure 6).

Figure 6: Responsible investing involves a range of strategies

Making changes to people and policies

To turn policies into consistent practices, organisations need time and resources. Typically, this involves recalibrating the composition of a team, dedicating budget and deploying subject matter experts.

Our research finds that, over a third (34%) of respondents have personnel dedicated to searching for, evaluating or monitoring responsible investments.

Respondents from Europe are more likely to say they have dedicated responsible investment staff (35%) than those in the US (20%).

This year, respondents are also three times more likely to say responsible or ESG investing will soon become the norm and indistinguishable from mainstream investing (2021: 56% vs. 2019: 18%). These views are particularly prominent among European and UK respondents.

Growth in attention to responsible investment and factors like more stringent regulatory requirements, such as Task Force on Climate-Related Financial Disclosures (TCFD) reporting requirements and a rising number of signatories to the PRI, mean that having staff dedicated to these areas could soon become essential.

“This year, respondents are also three times more likely to say responsible or ESG investing will soon become the norm and indistinguishable from mainstream investing”*

* 2021: 56% vs. 2019: 18%
More to metrics than meets the eye

When considering responsible investments, investors face a range of reports, ratings and ESG credentials to inform their policies and investment decisions. However, opinions vary about how best to use this data to demonstrate impact and responsibility.

For example, 38% of respondents globally say that a consultant’s recommendation or a high ESG rating can make a fund manager or product seem particularly attractive (Figure 7). This rises to 59% among DC pensions plans (vs. 40% DB). Clear reporting on responsible investment (37%) also scores highly.

“A consultant's recommendation or a high ESG rating can make a fund manager or product particularly attractive”
Respondents to this year’s survey indicated that the responsibility for responsible investment implementation lies primarily with fund managers, with whom funds are placed, or with their own organisation. For example, 48% of the respondents globally indicated this role lies both with the fund manager, and 48% (again) with their own organisation (vs. 56% and 47% respectively in 2019). Investment consultants are also used by a third of respondents globally — a decline from 45% in 2019.

Over half of respondents in Europe (52%) see this as the duty of the fund manager with whom funds are placed, so in essence the responsibility is ‘outsourced’; while in the US, respondents prefer to keep the responsibility ‘in house’ and conduct it themselves (38%).

For those that have yet to adopt responsible investing, data remains one of the most significant barriers. ESG ratings, reporting regimes and regulations have proliferated over the years, and most analytics rely on company reported data which can vary quite widely. Additionally, due to complex global supply chains, companies may not always have full visibility of where their organisation intersects with environmental, social or governance factors.

With approximately one in six citing issues around reliable, quality data (Figure 8), this is a key concern among respondents who do not currently incorporate or plan to incorporate responsible investment. In such instances, respondents may want to consider using ratings as one of many factors considered in responsible investment analysis.

Another obstacle to responsible investing remains the ambiguity concerning the impact on investment returns (14%). This rings particularly true for respondents in the US, who are more likely to want to see a stronger investment case that demonstrates the link between profitability and sustainability before they invest (31% vs. 8% globally).

Figure 8: Data quality concerns are a barrier to wider responsible investment incorporation

- Lack of good data: 16%
- Lack of consensus about the impact of RI on investment returns: 14%
- Lack of consensus about the impact of RI on investment risk: 8%
- Lack of agreement on key issues e.g. terminology and materiality: 8%
- Lack of good RI products: 8%
- Lack of dedicated resources: 7%
- Investment policy precludes investing for reasons other than financial considerations: 6%
- Belief that it will compromise returns: 5%
- Belief that it will increase costs: 4%

Overall, 2021 (n=271)
Predictions, priorities and plans
Events like the UN’s Climate Change Conference (COP26), and comprehensive scientific reports tracking year-on-year changes, such as the Assessment Reports from the Intergovernmental Panel on Climate Change (IPCC), are shining a spotlight on shared global challenges, such as climate change.

Regulation, for example, can be a powerful tool in mitigating or promoting certain behaviours, and for planning and prioritising action. However, it can also be slow to enact and reactionary in nature because its focus is as much on stimulating innovation as it is on curbing negative externalities.

Our survey highlights that regulation continues to drive adoption of responsible investment strategies. Globally, 44% of respondents say they are implementing responsible investment strategies to align with regulations in their jurisdiction on climate change, ESG or other responsible investment issues — up from 31% in 2019 (Figure 9).

US respondents are more hesitant because despite Executive Orders around climate change, formal ESG policy is still in development. Almost a third (31%) are waiting to see what regulations may be enacted before they move forward with implementing responsible investment strategies (vs. 17% globally).

At the same time, one in four respondents globally is responding more proactively in anticipation of regulation in their jurisdiction — up from 18% in 2019. The proportion rises even higher among UK respondents (28%) with the introduction of new reporting requirements. For example, new regulations in the UK will require disclosures in line with the TCFD. These disclosures will have to be adopted by companies, countries, cities and a range of institutional investors.
Doing well, while doing good
When asked to forecast the key drivers of future ESG or responsible investment adoption, more than two in five said it will include consensus on climate change (45%) and policy action from regulatory bodies (42%).

Indeed, evidence is mounting that doing well (financially) and doing good (morally) are not mutually exclusive, but the debate continues. The underlying philosophy of responsible investing is that for a business to be successful in the long run, it needs to be both profitable and sustainable.

In fact, our survey finds that respondents with exposure to responsible investments are satisfied (59%) or very satisfied (10%) with their returns to date (Figure 11). Satisfaction is consistently high across the UK (73%), Europe (68%) and the US (59%).

“Respondents with exposure to responsible investments are satisfied (59%) or very satisfied (10%) with their returns to date.”

Figure 10: Satisfaction with responsible investment returns is high among investors globally

*N=143 is based on respondents who said they invest in responsible investments. Percentages may not total 100 due to rounding.
For responsible investment to become more compelling, nearly half of respondents want to see better or more consistent data on ESG factors (47%) and two in five want greater industry agreement around definitions (Figure 11). This suggests that while reliable and consistent data can pose a challenge to decision making in many areas, the regulatory framework are also key to rapid progress and adoption of responsible investment strategies.

Over a third (36%) of US respondents also point to needing more compelling research on return profiles (vs. 23% globally).

Global DC pension plans (46%), and particularly those in the UK (56%), are calling for better data on ESG factors, with many citing this as a barrier to greater engagement. DC pension plans globally also cite the desire for more innovation, with nearly a third (31%) saying that they would like to see more products in areas that they find compelling (vs. 21% of all respondents globally).

“Global DC pension plans (46%), and particularly those in the UK (56%), are calling for better data on ESG factors, with many citing this as a barrier to greater engagement.”

Figure 11: Investors seek wider consensus around data and definitions from the industry

- Better or more consistent data on ESG factors
- Industry agreement on terms and definitions
- Agreement on the materiality of key ESG factors
- Compelling research on return profiles
- More products in areas that we find compelling
- More passive / index / low-cost investment options
- Clear product ratings or descriptions
- Greater transparency of costs and fees
- Agreement on shared or highest values

By geographic region:

- Global (n=271)
- Europe (n=35)
- U.K. (n=155)
- U.S. (n=55)
- Rest of the World (n=26)
Conclusion
Robust due diligence, strong governance and transparent decision-making lie at the heart of a well-managed portfolio. As ESG investment becomes increasingly mainstream, consensus around definitions will converge, and data quality, product innovation and compelling research on return profiles will improve.

For now, however, stakeholders from across the investment landscape are continuing to embrace responsible investing. Their predictions are ambitious; their plans and priorities are dynamic and multifaceted.

While there are still challenges to be resolved — such as those around data, definitions and terminologies — overall, investors remain evermore committed to tackling these issues together. With a range of social and environmental initiatives underway, investors continue to re-think investment policies and processes, and re-position investment portfolios towards resiliency and long-term impact.

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Glossary

**ESG integration** refers to the practice of incorporating material environmental, social and governance information into investment decisions to better evaluate risk and opportunity.

**Impact investments** are investments made with the intention of generating positive, measurable social and environmental impact, alongside a financial return. Impact investments are generally viewed as providing additionality, leverage, acceleration or innovation capital.

**Inclusion or exclusion (negative) screening** refers to the process of applying filters to lists of potential investments to either rule them in or out of contention for investment, based on an investor’s preferences, values or ethics.

**Mission-related investments (MRI)** are investments made by foundations and other mission-based organisations to further their philanthropic goals. MRI can help an organisation leverage their grant making and philanthropic efforts through a combination of the responsible investment techniques.

**Net zero** refers to the balance between the amount of greenhouse gases produced and the amount removed from the atmosphere.

**Responsible investment (RI)** is an umbrella term that refers to a set of investment strategies including ESG integration, impact investing, socially responsible investing and mission-related investing.

**UN Sustainable Development Goals (SDG)** were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. They are a collection of 17 interlinked global goals designed to be a pathway to achieving a more sustainable future for everyone.

**Task Force on Climate-Related Financial Disclosures (TCFD)** is a market-driven initiative, set up in 2015 with the goal of developing a set of voluntary climate-related financial risk disclosures. It is intended that these disclosures are adopted by companies, which would help inform investors and other members of the public about the risks they face related to climate change.
About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.