

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.

In May, data from Calastone showed that UK investors had invested £3.9bn into ESG funds since July 2017, significantly more than the £107m committed during the 33 months before that date. Asset managers have played their part by favouring ESG funds (alongside multi-asset and alternatives) in fund launches.¹

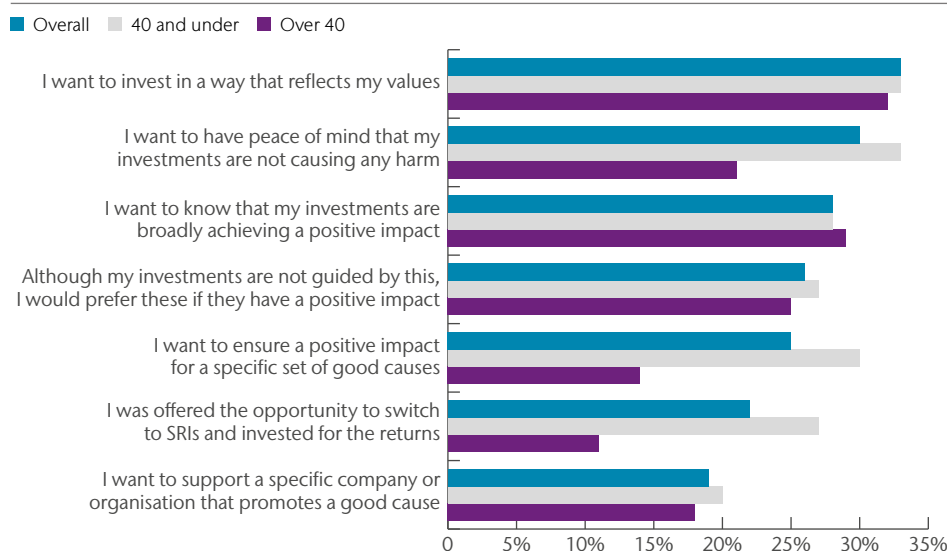
The UK wealth management industry has been braced for an associated surge in client demand — and is starting to see this happen. During a virtual round-table we hosted for the UK wealth industry in June, a range of participants confirmed that client interest in ESG is manifesting in multiple ways, driven 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 community causes and how they are using their voice at AGMs to achieve positive impact.

Our own data leads us to agree there is a significant opportunity now for firms to capitalise 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'

Survey data collected in 2019 from high-net worth clients in the UK shows their primary motivation for investing sustainably is to be true to their values [Figure 1]. This powerful emotional dimension is important to clients of all ages but particularly those under 40. This younger generation is more thoughtful about re-enforcing charitable giving through their investment choices to advance specific causes they care about.

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=88)

¹ Institutional Asset Manager, 'UK asset managers shun traditional asset classes and line-up alternative, multi-asset and ESG fund launches for 2020', 26th May 2020



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We see the same trend across the Atlantic. Our recent research partnership in association with the Money Management Institute in the US 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.

They are missing an opportunity: alignment on values is a critical success factor for the overall relationship.¹

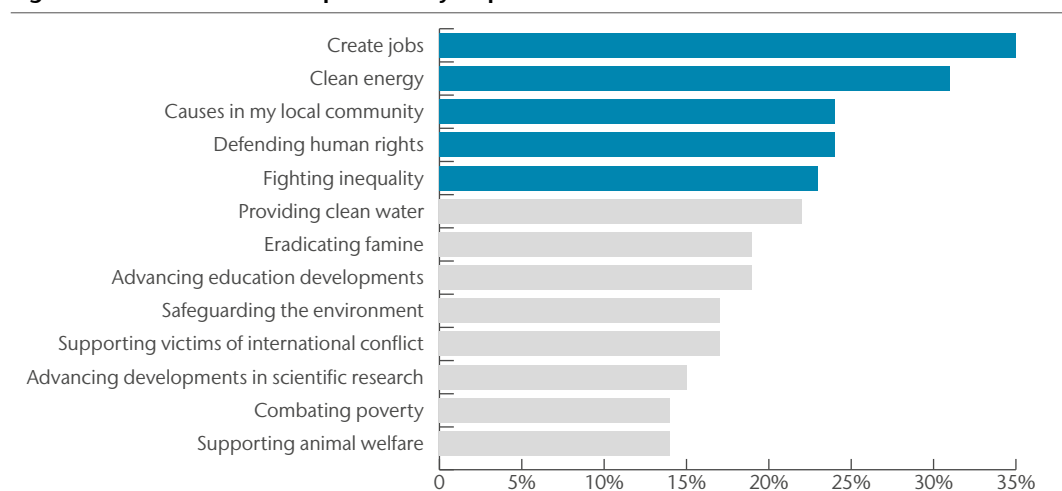
Client interest has grown in the last 18 months, but climate change isn't the only reason

If the cross-generation trends are surprising to firms, it may be because change is happening so quickly. Many investors have only recently become galvanised. In the UK, 66% 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 and widening social inequality [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 UK clients



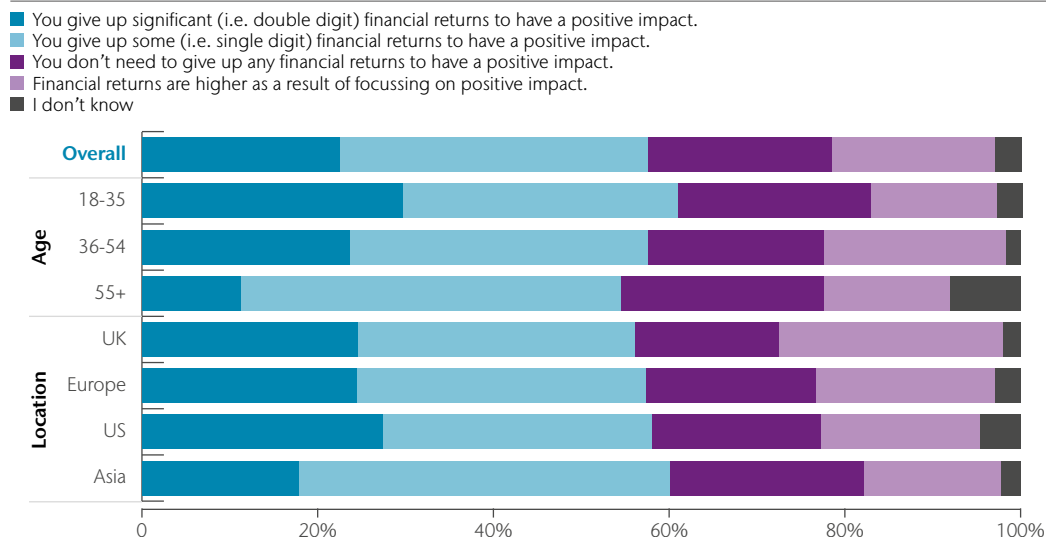
Source: BNP Paribas & Aon, Global Entrepreneur Report 2018

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=88)

Capitalising 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)

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

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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