



Global Perspectives on Responsible Investing 2019

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Like many of our clients around the globe, Aon is witnessing a revolution in corporate responsibility and sustainability. That increasingly requires monitoring frequent regulatory changes, partnering with global organizations to research and propose solutions around responsible investing (RI) and sustainability, providing consulting services geared to guide clients to best practices, and strengthening our own environmental, social and governance practices. In response, at Aon we have undertaken a growing number of initiatives devoted to improving and expanding our commitment to, and action around sustainability, including:

- Calculating environmental, social and governance (ESG) ratings on all Buy-rated public equity and fixed income managers, with private asset manager ratings now also in progress. We know investors want to better understand how their managers are incorporating non-financial data to identify and alleviate an increasing array of global risks. Our ESG ratings provide that key data to clients as well as to our internal asset management teams, who increasingly rely on this data to develop and manage products.
- Developing climate change scenarios to help investors evaluate and mitigate these risks to their portfolios.
- Launching a UK working group on responsible investing that brings investors and other industry participants together quarterly to discuss developing RI regulations and best practices.
- Partnering with the United Nations Principles of Responsible Investing (UN PRI) organization to provide all research, delegated, consulting and other client-facing staff in Aon's investment business with the UN PRI's responsible investment trustee training. As the first global professional services firm to do so, we believe this will enable our team to more fully understand and meet the RI needs of our clients.
- Utilizing our ESG ratings to improve the sustainability of our own fund offerings on our outsourced chief investment officer (OCIO) teams. In addition, we plan to launch both an impact fund and a low carbon factor fund, so clients can meet their RI demands through Aon's discretionary asset management.
- Working with the University of Cambridge Institute for Sustainability Leadership (CISL) Investment Leaders Group, a global network of pension funds, insurers and asset managers with more than USD \$12 trillion under management and advice. We recently consulted on CISL's paper, *"In Search of Impact: Measuring the Full Value of Capital / The Investment Impact Framework."*¹
- Joining the Sustainability Accounting Standards Board (SASB) Alliance because we believe in the importance of participating in a multi-stakeholder forum that can create a common language and discourse around sustainability issues focused on financial materiality.

This is just a sample of our RI and corporate social responsibility activities, but I believe it demonstrates Aon's commitment and holistic approach to tackling this important area to maximize opportunities for investors.

The 2019 *Global Perspectives on Responsible Investing* report is yet another piece of that puzzle. For the second year in a row, we surveyed institutional investors across geographies, investor types and firm sizes to uncover how responsible investing is evolving. Through this effort, we confirmed that responsible investing is expanding at a furious pace, and we hope the trends and investment practices that our research revealed will help you wherever you may be on your organization's RI journey.

With best wishes,
Cary Grace
CEO, Global Retirement and Investment

¹ University of Cambridge Institute for Sustainability Leadership (CISL). (2019, January). *In search of impact: Measuring the full value of capital. Update: The Investment Impact Framework*. Cambridge, UK: Cambridge Institute for Sustainability Leadership.

Institutional investors are unique in the investing world. Where individual investors invest for a single lifetime, institutions must invest for the truly long term, often measured in generations.

Interestingly, the first public pension fund in the United States, for police officers in New York,² was formed over 150 years ago, while the Royal Navy Pension in the United Kingdom became available to yard officers and some captains as early as 1666 before expanding to all officers in 1836.³ In fact, many “modern” pensions were started around the turn of the 20th century, and have been providing benefits for generations of retirees ever since. A host of well-known foundations, such as the Rockefeller Foundation,⁴ Knut and Alice Wallenberg Foundation⁵ and the Wellcome Trust⁶ launched around the same time, while endowments were being formed even earlier, even by such historical notables as Henry VIII’s grandmother, the Countess of Richmond. In 1502 she established endowments at Oxford and Cambridge Universities which are still active today.⁷

However, despite this incredibly long-term investing horizon, institutional investors still have short-term investment goals and must manage both short-term market, liquidity and credit risks as well as longer time horizon scenarios. While risk factors such as climate change, cybersecurity, social issues, and corporate governance (or the lack thereof) can present short-term risk and volatility for investors, successfully managing these and other evolving global conundrums in the years to come may require new tools, data and approaches.

Increasingly, we see investors rising to this challenge through the use of various responsible investment (RI) techniques. Once thought the purview of non-profits looking to leverage their philanthropic efforts, increasingly corporate and public pensions, defined contribution plans, insurance companies and other institutional investors are also turning to RI to both manage and shape the environmental, social and governance (ESG) risks that have potential to produce real financial impacts.

To assess how investors are tackling these issues, Aon launched its second annual survey on *Global Perspectives on Responsible Investing*, and the results have been eye-opening. The survey confirms what responsible investment practitioners have begun to suspect: investors are increasingly attuned to ESG risks and ways to mitigate them. Within the last year, we’ve seen the number of investors who have embarked on an RI journey balloon. More and more, investors are asking what steps they can take to mitigate ESG risks, what prudent peers are doing, and what is permitted (or even required) from a regulatory perspective.

It is also important to note that we continue to see significant regional differences in interest and activity around responsible investing. For example, in the UK and Continental Europe, where regulations already exist and continue to get stronger, we generally see investors taking steps to implement responsible investment strategies within their organizations. In comparison, Canadian and US investors’ interest is definitely increasing, but these investors are generally at a more preliminary stage, such as trustee training or investment committee discussion. In fact, like many things surrounding responsible investing, from materiality to terminology, there doesn’t appear to yet be an industry standard definition, process or timeline for implementing RI, and most investors move at their own pace and in their own fashion unless driven by specific regulations that prompt action within a specific timeframe. As a result, it is important to note that those polled interpreted survey terminology through the eyes of their own organization or experience when providing responses.

Regardless, Aon’s *Global Perspectives on Responsible Investing* aims to make cosmos from this chaos so investors can get a clearer perspective on where RI is now, and where its likely headed in the future.

Unless otherwise indicated, all sources are Global Perspectives on Responsible Investing

² <https://protectpensions.org/2017/04/29/public-pensions-early-history/>

³ <http://www.nationalarchives.gov.uk/help-with-your-research/research-guides/royal-navy-officers-pensions/>

⁴ <https://www.britannica.com/topic/Rockefeller-Foundation>

⁵ https://web.archive.org/web/20080303131550/http://wallenberg.org/kaw/in_english/default.asp

⁶ <https://wellcome.ac.uk/sites/default/files/wellcome-trust-annual-report-and-financial-statements-2018.pdf>

⁷ <https://charity.lovetoknow.com/history-charitable-endowment-giving>

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Key findings

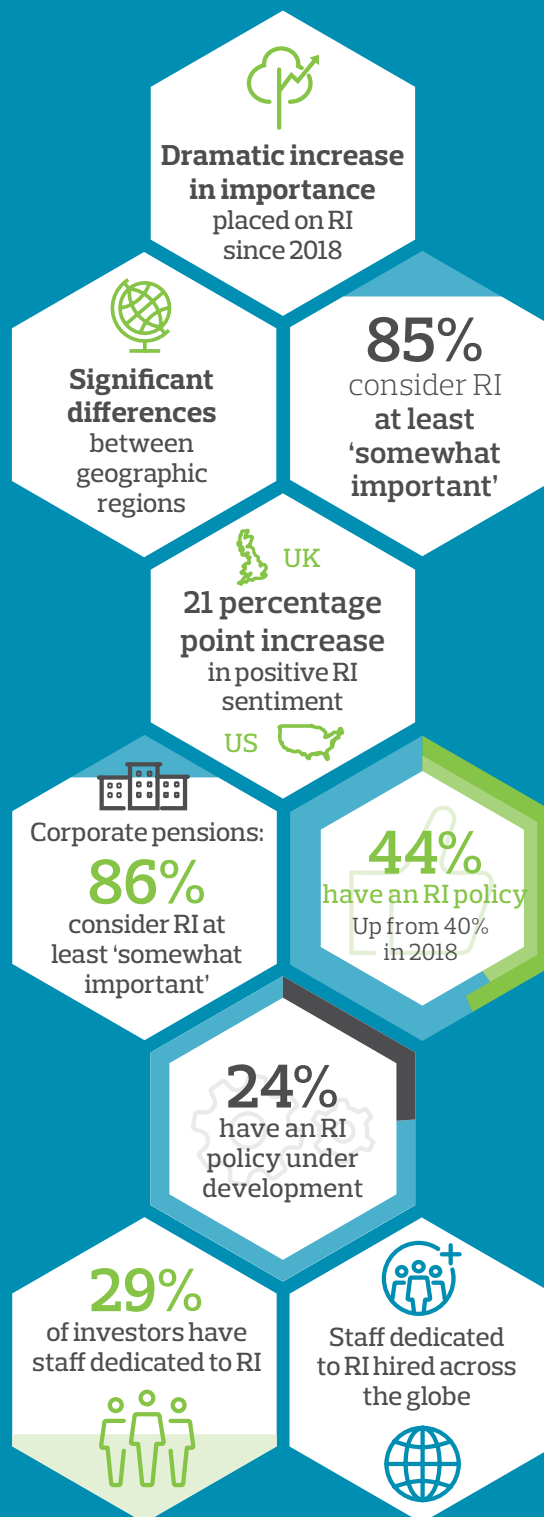
RI is making progress globally. In fact, it has grown dramatically in importance across all geographies and investor types during the last year. While our 2018 survey found that 68 percent of those polled believed RI to be at least somewhat important, our 2019 results saw that number jump to 85 percent. It is important to note, as we do throughout this report, that significant differences persist between geographic regions when it comes to the degree of definitive RI actions.

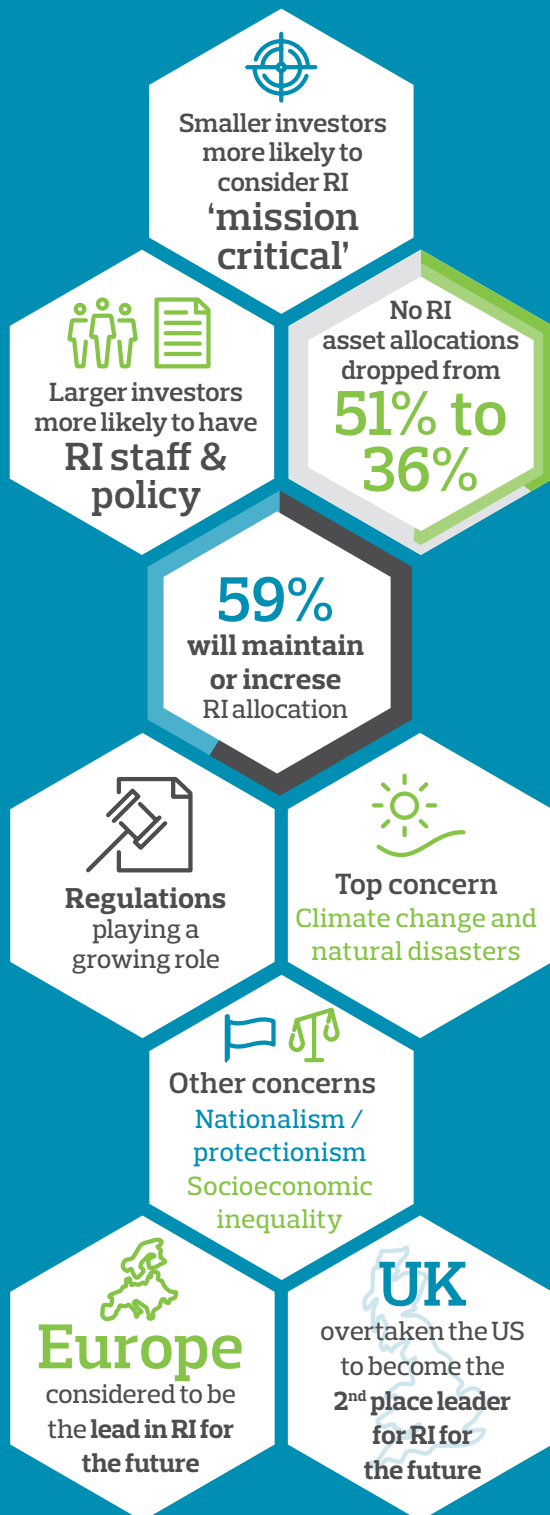
The biggest gains in positive sentiment came from the United Kingdom (UK), where those deeming RI at least somewhat important jumped 21 percentage points, from 66 percent in 2018 to 87 percent in 2019 and, perhaps surprisingly, the United States (US), which also saw a 21-percentage point increase in positive sentiment year over year.

Corporate pensions also made huge gains in positive RI sentiment over the last year. In our 2018 survey, only 56 percent of those corporate pensions polled found RI at least somewhat important. In the 2019 survey, that figure climbed to 86 percent.

More investors now have RI policies in place. In 2019, 44 percent of those polled indicated their organization has an RI policy, while another 24 percent stated a policy was under development. In comparison, 40 percent of those polled in 2018 had an RI policy, with another 14 percent under development.

Staff dedicated to RI also grew over the past 12 months, with staff present in 29 percent of the investors polled, up from 20 percent in 2018. Hires appear to have been made by investors in all geographic regions.





Size plays a role in RI, but not always in the way one expects. Smaller investors are more likely to consider RI “mission critical,” but larger asset owners are more likely to have both a policy and dedicated staff.

Assets allocated to some type of responsible investing strategy appear to be increasing. In 2018, 51 percent of those polled indicated they had no responsible investments in their portfolios. In 2019, that figure dropped to 36 percent. In addition, in this year’s survey 59 percent of respondents indicated they would maintain or increase their allocations to RI, compared with 43 percent of those polled in 2018.

Regulations play a growing role in investors’ RI initiatives. When polled, 31 percent of respondents indicated their organization is implementing RI strategies to comply with local regulations on climate change, ESG or other RI issues. Only 6 percent of respondents believed regulations in their jurisdiction were not currently compatible with responsible investment strategies.

Institutional investors remain concerned about a variety of global problems, but climate change continues to be top of mind. As in our 2018 survey, climate change / natural disasters, nationalism/protectionism, and socioeconomic inequality ranked first, second and third among respondent concerns.

While Continental Europe maintained the top spot as the region respondents believe will lead on RI in the future, the US dropped out of the number two spot to a somewhat distant third place finish in the 2019 survey. Likely due to policy gaps in the US, and to regulatory advances in the UK, the United Kingdom now holds second place by a margin of 14 percentage points.

Methodology

To create the 2019 report *Global Perspectives on Responsible Investing* Aon relied on the following information:

- A global survey of institutional investor contacts, including Aon clients conducted from early May 2019 through late July 2019.*
- The survey captured the sentiments of 229 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:

- United States
 - United Kingdom
 - European Union/Continental Europe
 - Canada
- Survey participants were asked to provide additional comments 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.

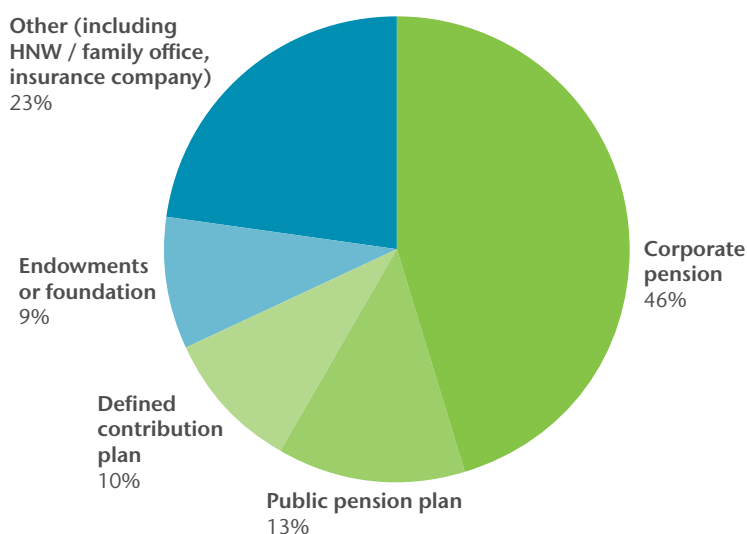
* Approximately 12,800 institutional investor contacts, including Aon clients, were approached.

Demographics of survey respondents

The 2019 report *Global Perspectives on Responsible Investing* encompasses feedback from a diverse group of 229 institutional investors located around the globe. Like 2018's report, corporate pensions were the largest group of survey respondents, comprising 46 percent of those polled, although some indicated in the comments that they also represented their company's defined contribution plan as well. Public pensions were represented by 13 percent of the survey respondents, followed by defined contribution (DC) plans at 10 percent and endowments and foundations (E&Fs) at 9 percent of respondents. "Other" investors (including family offices, insurance firms and high net worth individuals) did comprise 23 percent of the total respondent population. However, because these investor types were not plentiful enough on their own to produce specific cohorts, and because, in a number of cases, respondents did not represent institutional investors, their responses have not been singled out in the analysis that follows. In comparison, our 2018 survey was comprised of 223 organizations with similar breakdowns by investor type (corporate pension 45 percent, public pension 15 percent, defined contribution 10 percent and endowments and foundations 11 percent).

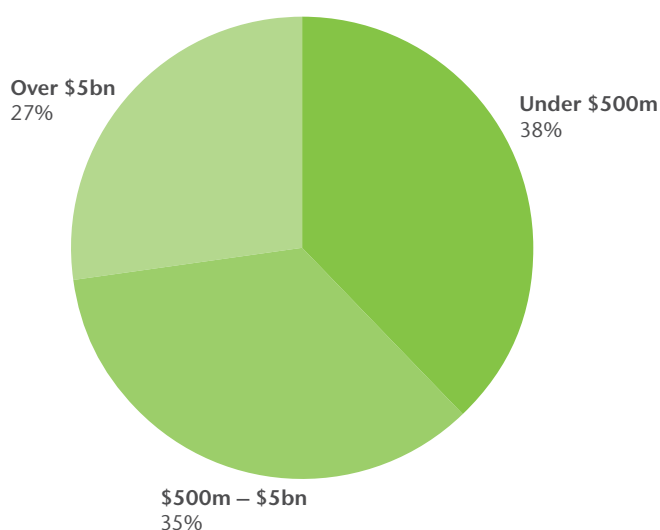
Institutional investors who responded to Aon's survey were fairly evenly distributed by portfolio size. While those managing less than \$500 million (USD) comprised a slightly higher percentage of respondents (38 percent), those managing the largest portfolios (\$5 billion + USD) were also well represented (27 percent). We did note some significant differences, in the approach to and resources dedicated towards responsible investing, across investors in the various size buckets, and those have been noted throughout the report.

Figure 1: Survey respondents by organization type



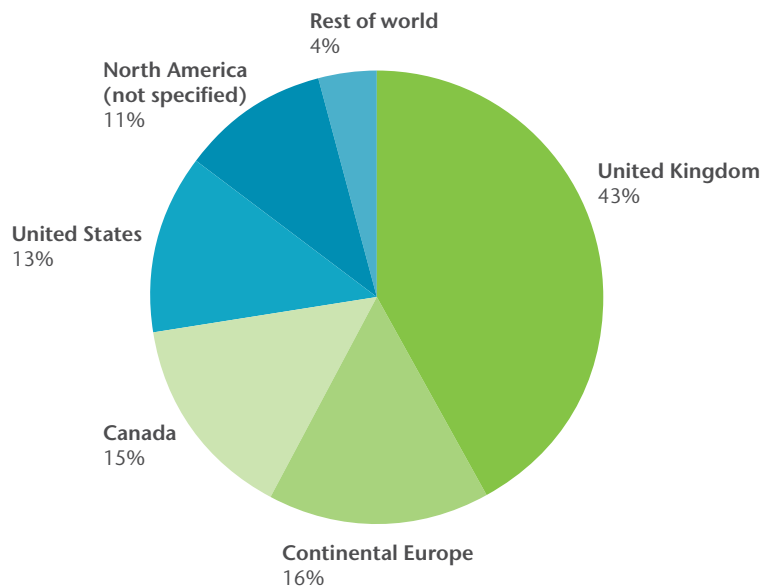
Total may exceed 100% due to rounding

Figure 2: Survey respondents by size



Finally, we asked survey respondents to identify their main geographic location (headquarters) since attitudes towards and regulations around RI can vary greatly between regions. As with last year, a plurality of Aon’s survey respondents were based in the UK (43 percent versus 41 percent in 2018), while those in Continental Europe comprised another 16 percent of those polled, the same percentage as in our 2018 report. We believe that survey outreach efforts in the UK, combined with a rapidly transforming regulatory landscape there, led to a somewhat disproportionate response in that region, but also believe we have statistically significant results for all regions studied individually. In fact, we had a robust response from respondents in North America, however some did not specify their headquarters country. As a result, individual cohort results have been calculated only for those who specified a Canadian (15 percent versus 18 percent in 2018) or United States (13 percent versus 15 percent in 2018) headquarters. The slightly lower percentages from the US and Canada are likely due to the inclusion of “North America (not specified)” as a respondent option in the 2019 survey.

Figure 3: Survey respondents by geography



Total may exceed 100% due to rounding



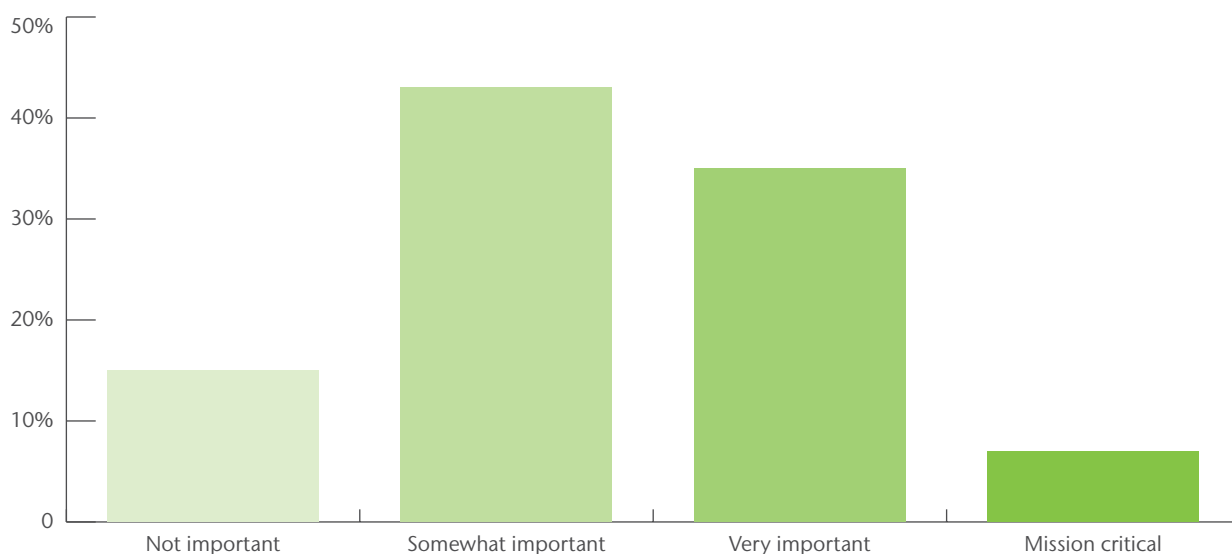
Interest in responsible investing is growing rapidly



One of the clear trends in the 2019 survey is how rapidly responsible investing is evolving and becoming mainstream. Studies like Global Sustainable Investment Alliance’s show a massive uptick in sustainable investment assets, up 34 percent to more than \$30 trillion between 2016 and 2018.⁸ Our survey results, likewise, show increased interest and action by institutional investors. In many ways, the evolution of RI in a short period of time is jaw-dropping.

“One of the clear trends in the 2019 survey is how rapidly responsible investing is evolving and becoming mainstream”

Figure 4: Importance of responsible investing to your organization



“This increase in responsible investment sentiment is anything but tepid. Those who indicated that it is “very important” rose by 10% – from 25% in 2018 to 35% in 2019”

For example, our 2018 survey revealed that 68 percent of those polled believed RI to be at least somewhat important to their organization, while our 2019 results saw that figure jump to 85 percent. The biggest gains in sentiment came from the UK, where those that deemed RI at least somewhat important to their organization swelled by 21 percentage points (from 66 percent in 2018 to 87 percent in 2019), and perhaps surprisingly to some, in the US, which also saw a surge of 21 percentage points over last year to 78 percent.

What’s more, this increase in sentiment is anything but tepid. For example, those respondents that indicated responsible investing is “very important” to their organization rose by 10 percentage points, from 25 percent in 2018 to 35 percent in 2019.

⁸ <https://www.greenbiz.com/article/global-sustainable-investing-assets-surged-30-trillion-2018>

The biggest gains were made in the UK, where number of respondents who stated it very important to their organization rose from 19 percent in 2018 to 42 percent in 2019. Canada also saw a five-percentage point increase in those who believe RI is very important, while Continental Europe held steady and the US experienced a slight drop (18 percent to 15 percent), which may have been driven by the addition of a North America demographic option, which actually displayed a stronger commitment (32 percent stated it was very important).

Corporate pensions made large gains in positive responsible investing sentiment over the last year. In our 2018 survey, only 56 percent of those corporate pensions polled found RI at least somewhat important to their organization. In the 2019 survey, that figure jumped to 86 percent. Public pension interest also soared by 22 percentage points.

Interestingly, smaller organizations were more likely to consider responsible investing as “mission critical” with 10 percent of the organizations with less than \$500 million in assets under management (AUM) selecting this option. In comparison, organizations in the \$500 million to \$5 billion and the \$5 billion or more categories indicated it was mission critical only 7 percent and 4 percent of the time, respectively. This is likely due to a higher percentage of non-profit and “other” organizations in the smaller AUM bucket (55 percent and 40 percent, respectively), but is interesting to note, regardless.

Figure 5: Year-on-year change in responsible investing attitudes by geographic region

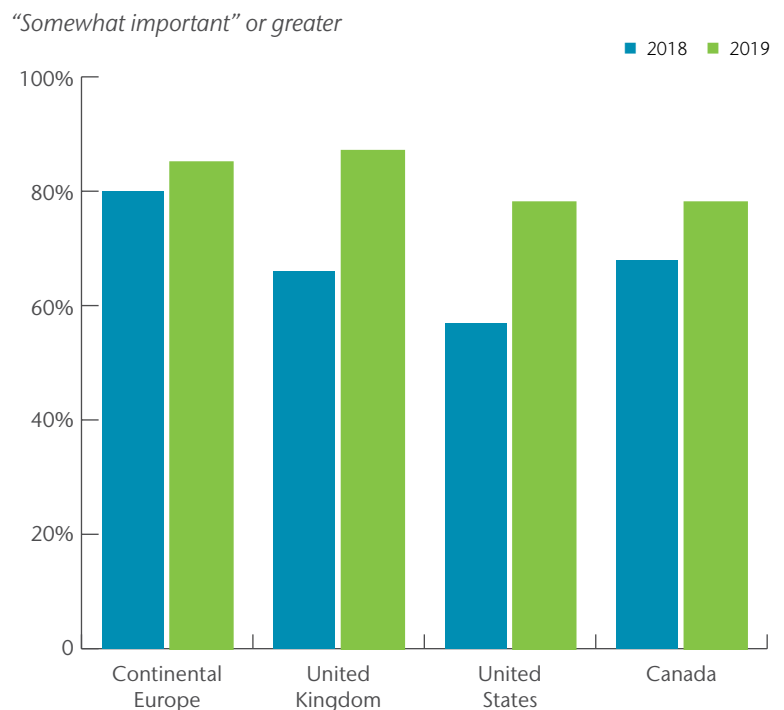
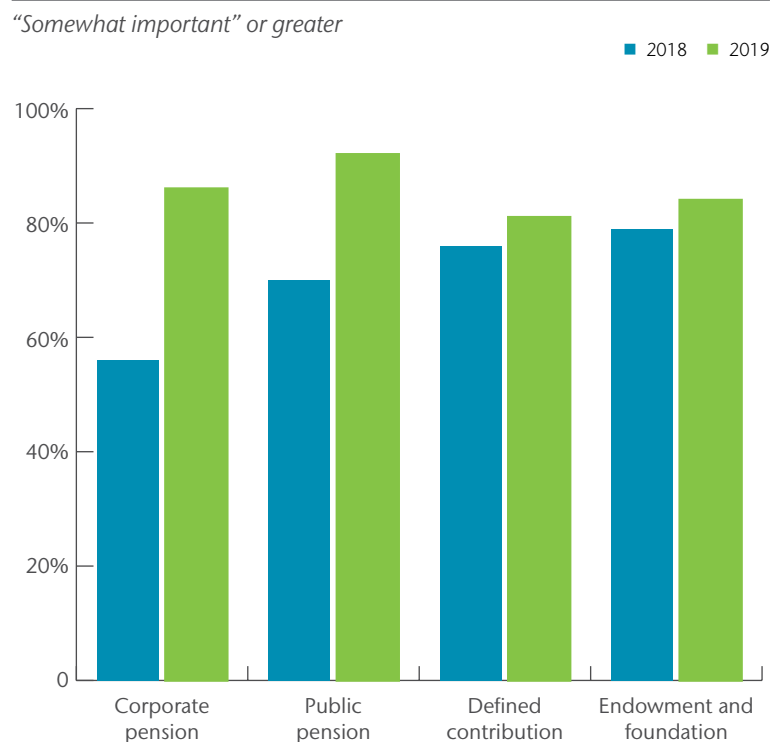


Figure 6: Year-on-year change in responsible investing attitudes by investor type

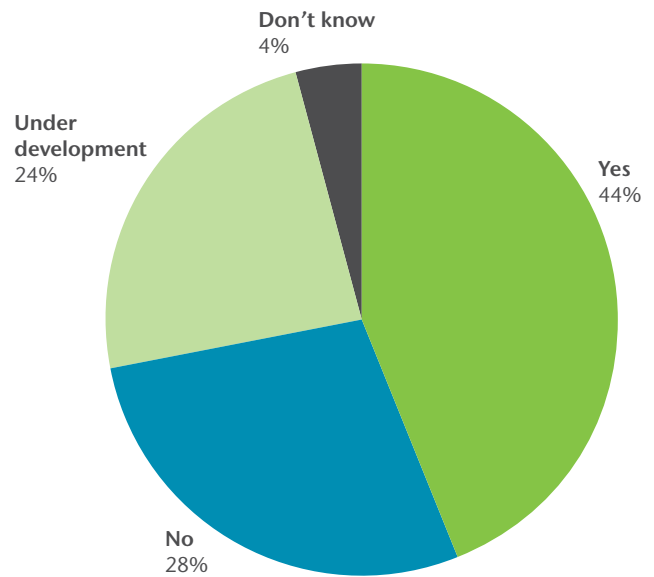


As a result of the increased interest in and importance of responsible investing to the institutional investor community, we now see more investors with RI policies in place. In 2019, 44 percent of those polled indicated they had a policy (compared with 40 percent in 2018), while another 24 percent indicated a policy was under development (compared with 14 percent in 2018)

“69% of the \$5 billion AUM cohort indicate a responsible investment policy is in place.”

Corporate pensions saw the most activity around policy development as the number of corporate pensions with policies grew from 31 percent in 2018 to 46 percent in 2019. Geographically, institutional investors in the UK were the most likely to have an RI policy, with 55 percent of respondents stating they already had one in place. UK respondents were also the most likely to be developing an RI policy, with 32 percent indicating that work on this was underway. 42 percent of the respondents from Continental Europe already have an RI policy, while investors in Canada and the United States followed at 38 percent and 32 percent, respectively. As we discuss later in this report, the presence of responsible investment regulation, or the lack thereof, is a key factor in this activity.

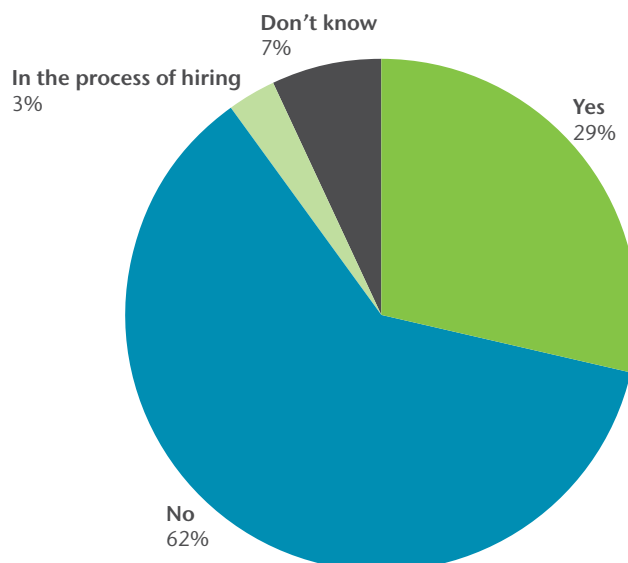
Figure 7: Presence of responsible investment policy



Finally, size was a significant factor in the existence of an RI policy, with 69 percent of the the \$5 billion AUM cohort indicating a policy is in place. For those with assets under management of \$500 million or less, that number fell to 35 percent.

As institutional investors see responsible investing grow in importance, they are also hiring staff to oversee it. While only 20 percent of those polled in 2018 had staff dedicated to responsible investing, that figure has jumped by nine percentage points in the last year. Increases in RI staff were made in all geographic regions, with Continental Europe and the UK seeing the largest gains.

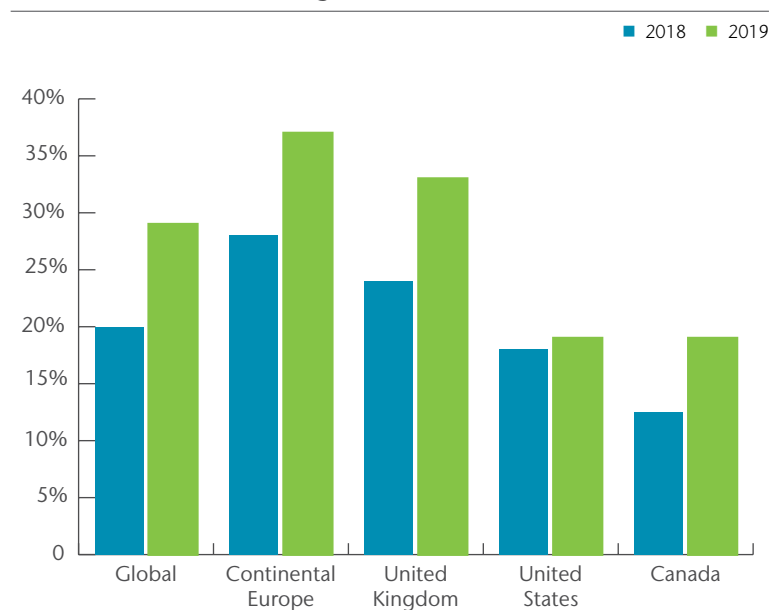
Figure 8: Presence of staff dedicated to responsible investing



Continental Europe respondents are the most likely cohort geographically to have staff dedicated to RI, at 37 percent, but 33 percent of UK respondents indicated they did too. In comparison, only 19 percent of institutional investor respondents in both the US and Canada stated they had dedicated staffing in this area.

Endowments and foundations were the most likely investor type to have staff dedicated to RI, at 28 percent, and were also the most likely to be considering RI staff hires, at 11 percent. And once again, and perhaps not surprisingly, larger firms were more likely to have dedicated RI staff: 42 percent of firms polled with more than \$5 billion in AUM had RI staff, while only 24 percent of those with less than \$500 million in AUM said the same.

Figure 9: Year-on-year change in dedicated responsible investment staffing



"37% of respondents in Continental Europe, and 33% in the UK, indicated they have staff dedicated to responsible investing, compared to 19% in both the US and Canada."


Figure 10: Responsibility for responsible investing



Despite gains in dedicated RI staffing and plans for increasing hiring among many of the investors polled, our survey found that nearly two-thirds of those polled do not have full-time, in-house RI staff. Perhaps as a result, as in last year's survey, external investment managers (and investment consultants) continue to bear much RI responsibility. This year, 56 percent of those polled stated outside investment managers are responsible for RI, a decrease from last year's 68 percent figure. Meanwhile, the percentage of respondents who indicated that the responsibility for RI falls on their organization increased from 36 percent in 2018's survey to 47 percent in 2019. Consultants also should shoulder the RI burden according to respondents, with a jump of 13 percentage points in these responses.

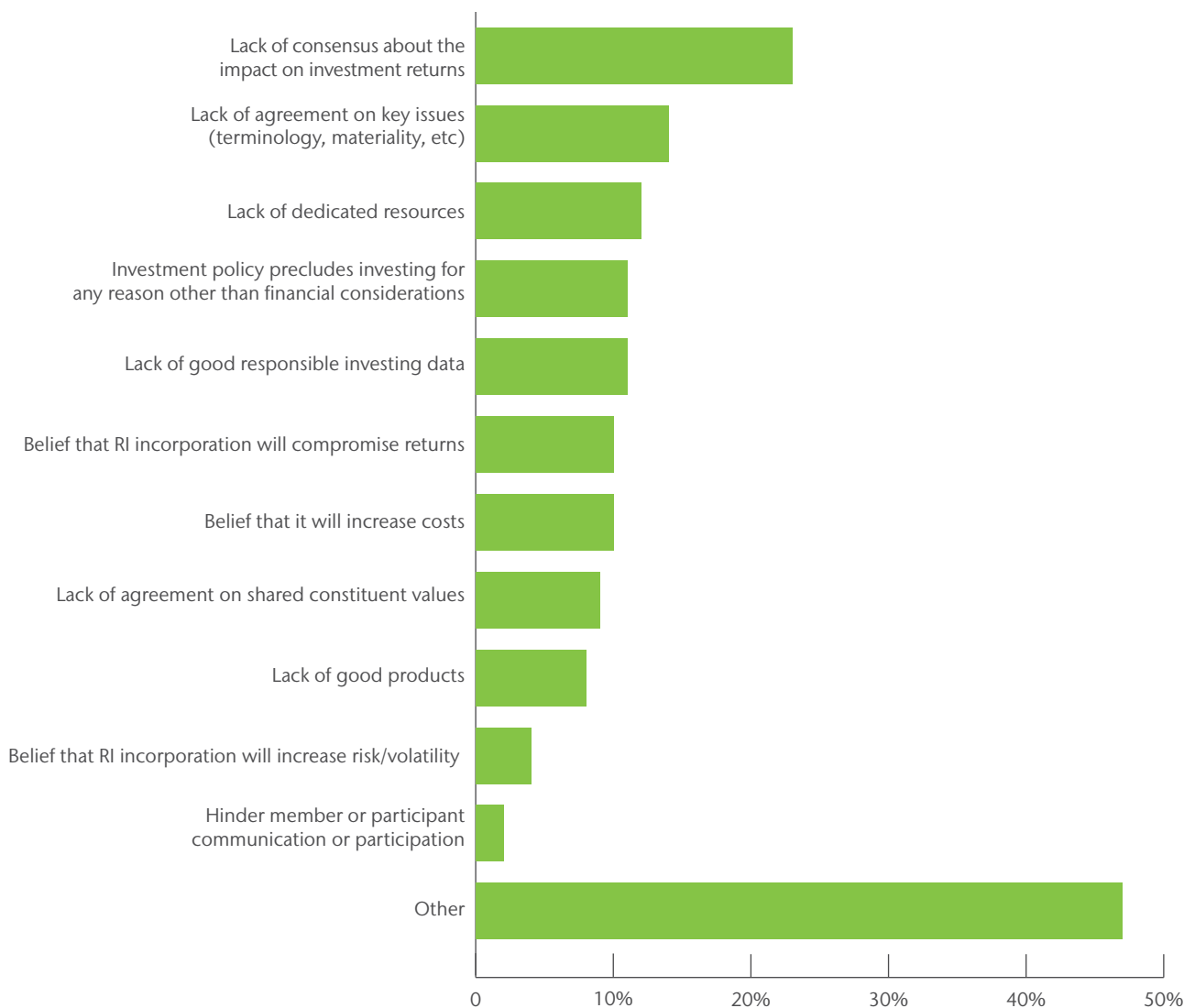
Endowments and foundations were the most likely to indicate that RI is considered an internal initiative, with 39 percent stating that their organization is responsible for responsible investing. The other three investor types all indicated that investment managers bear primary responsibility. And, as one might assume, there was a difference in responses based on portfolio size. Those managing portfolios under \$5 billion in AUM stated that investment managers are the most responsible for RI at their organization, while firms with more than \$5 billion AUM revealed RI was an internal responsibility (43 percent).

Although there has clearly been nearly seismic movement in responsible investing over the last year, we did find that there are still investors who are on the fence. A number of investors, 23 percent in our 2019 survey, still feel a lack of consensus about how responsible investing might impact investment returns is a major concern, although the percentage declined year over year from 39 percent in 2018's results.



For those investors who are interested in research on RI and returns, Aon produced a white paper in May 2019 that reviews the available research. It is available for download [here](#).

Figure 11: Responsible investing: why not?



Please note that those who responded "other" to this question most often cited that they were, in fact, participating in responsible investments and therefore had no reason to eschew RI.

In addition, lack of agreement on key issues, such as terminology and materiality, is a hindrance for 14 percent of those polled, down from 26 percent in 2018. Indeed, terminology continues to be a problem in the industry, made worse by the application of imprecise terms on a wide variety of investment products. For example, a number of products have launched over the last 12 months under the ESG label. However, upon closer inspection, many of these funds may also include specific sector exclusions or limitations, which falls more under the socially responsible investing (SRI) heading, and/or have impact goals as well. While this “big tent” approach may be appealing to asset managers looking to capture a wide array of clients, it has not done many favors when it comes to simplicity or specificity of RI terminology.

Aon continues to advocate for the apt imposition of names when it comes to all things RI and uses the following definitions consistently to help alleviate confusion:



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 the tobacco, private prison, fossil fuel or other “objectionable” industries.



2. Impact investing

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

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



3. Mission related investing

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

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



4. Environmental, social and governance integration

(ESG)

ESG integrated investing is different from the rest of its RI peers, because unlike socially responsible investing, impact investing, and mission-related investing, which are driven primarily by individual or institutional values, ESG investment decisions continue to be directed by the fundamentals of the investment. After considering technical and fundamental investment factors, ESG investors incorporate non-financial ESG factors to the extent they are material to the company’s future financial performance.

Responsible investment: practical application within portfolios



For those that have already implemented (or are considering implementation of) a responsible investment program, the question of impact on returns appears to be nearing a positive tipping point. In fact, an increased percentage of respondents (42 percent) felt that the incorporation of non-financial ESG data actually results in better investments.

To be sure, however, some respondents continued to express skepticism. “I think that the jury is out on whether ESG positively affects performance. If it becomes clearer that it does, I expect our schemes to follow the evidence,” said one respondent.

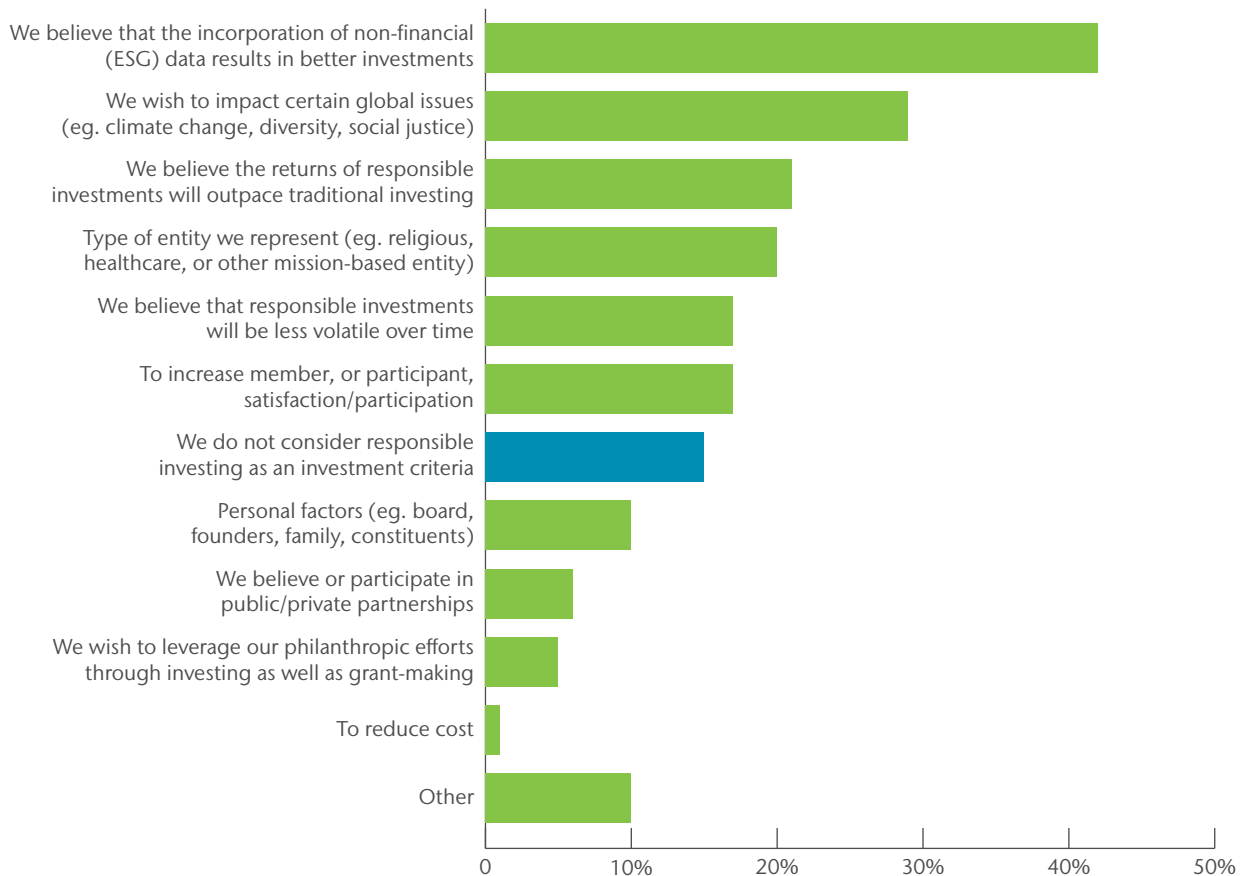
Aon’s 2019 white paper addressed some of the uncertainty around how RI or ESG might impact return profiles, concluding that “generally speaking, however, studies suggest ESG’s impact on performance has been neutral to positive.”⁹ However, we also acknowledge that these studies have “been conducted over a relatively short period of time — less than a full market cycle. As a result, we may not yet know how ESG integration will impact investments in a sideways or bear market environment.”¹⁰ Despite any lingering uncertainty, Aon does believe that investors can prudently implement RI strategies and achieve desired sustainability outcomes without forfeiting their fiduciary duties.

“42% felt that the incorporation of non-financial ESG data actually results in better investments.”

Still another group of respondents indicated their primary motivation for engaging in responsible investing was to impact global issues such as climate change, diversity or social justice (29 percent). This is largely a UK and Continental Europe phenomenon, however, with only 10 percent of US investors and 8 percent of Canadian investors indicating global impact is a motivating factor.

Finally, those who do not consider RI as investment criteria fell from 26 percent to 15 percent since our 2018 survey.

Figure 12: Primary drivers of responsible investing within organization



⁹ <https://retirement-investment-insights.aon.com/retirement-investment-insights/aon-key-considerations-responsible-investing-whitepaper>

¹⁰ *Ibid.*

In our 2019 survey, a new motivating factor emerged: Regulations. In fact, there have been several notable changes in the regulatory environment surrounding responsible investing in just the past 12 to 18 months. A sampling includes:

- In 2019, the UK Government introduced the world’s first law requiring the nation to reduce greenhouse gas emissions to net zero by 2050.
- In 2019, the European Commission reached political agreement with the European Parliament and EU Member States on new rules around disclosure requirements for sustainable investments and sustainability risks. While the rules have yet to come into force, they are expected to:
 - Explicitly link financial regulation to global sustainability objectives such as the Sustainable Development Goals (SDGs) and the Paris Agreement.
 - Compel covered financial market participants to integrate ESG factors.
 - Require financial market participants to disclose the adverse impact of ESG matters. This would be the first regulatory-backed disclosure framework for the adverse sustainability impacts of investment activity.
- In 2018, the UK Department for Work and Pensions (DWP) legislated that by October 2019, where trustees are required to produce a Statement of Investment Principles (SIP), they will need to have updated it, setting out:
 - How they take account of financially material considerations, including (but not limited to) those arising from ESG considerations, including climate change.
 - Their stewardship policies including engagement with investee firms and the exercise of the voting rights associated with the investment.
- The DWP later issued further requirements requiring applicable SIPs to set out how respective asset managers align themselves to the trustee’s SIP, including voting and engagement behaviors. An annual engagement policy statement needs to be reported on from October 2020, with some schemes required to publish this on their website.
- UK legislation is further supported by revisions to the UK Stewardship Code.

Figure 13: The impact of regulations on responsible investment

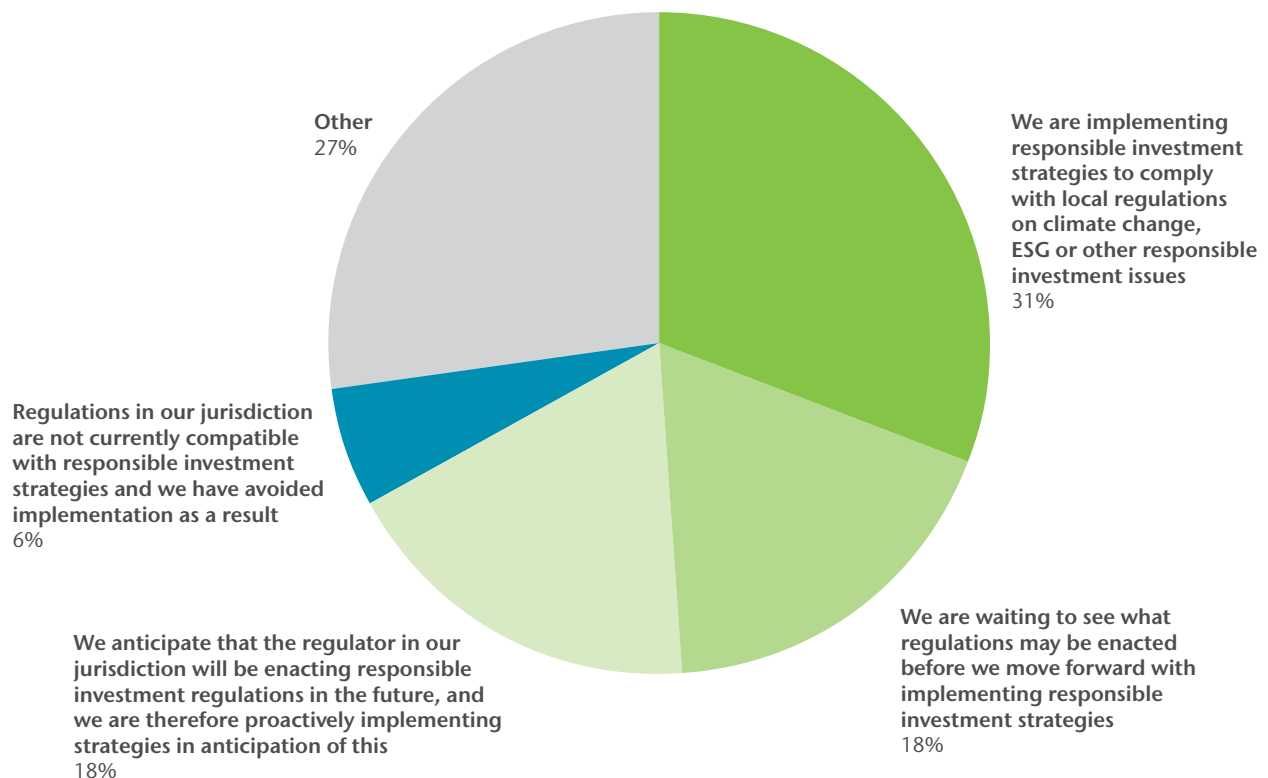
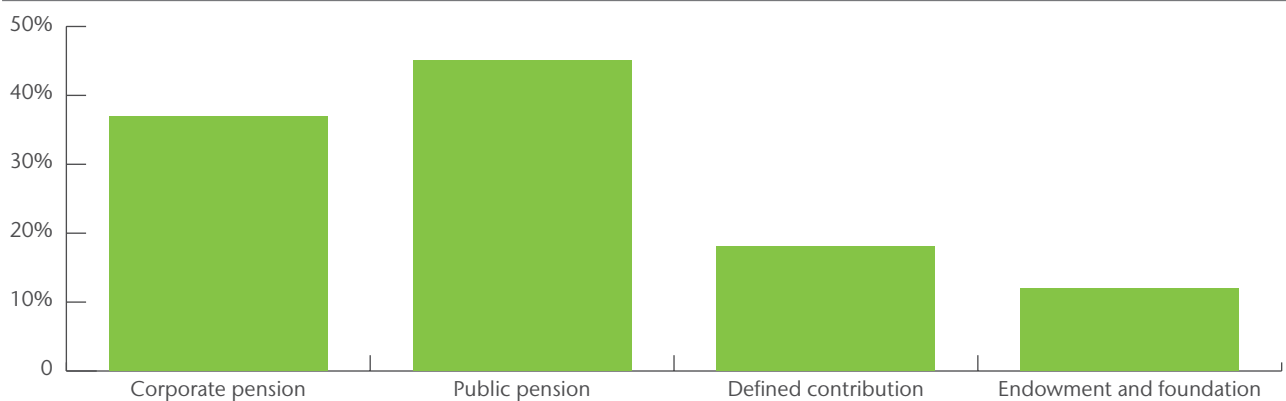


Figure 14: Impact of responsible investment regulation on investor types



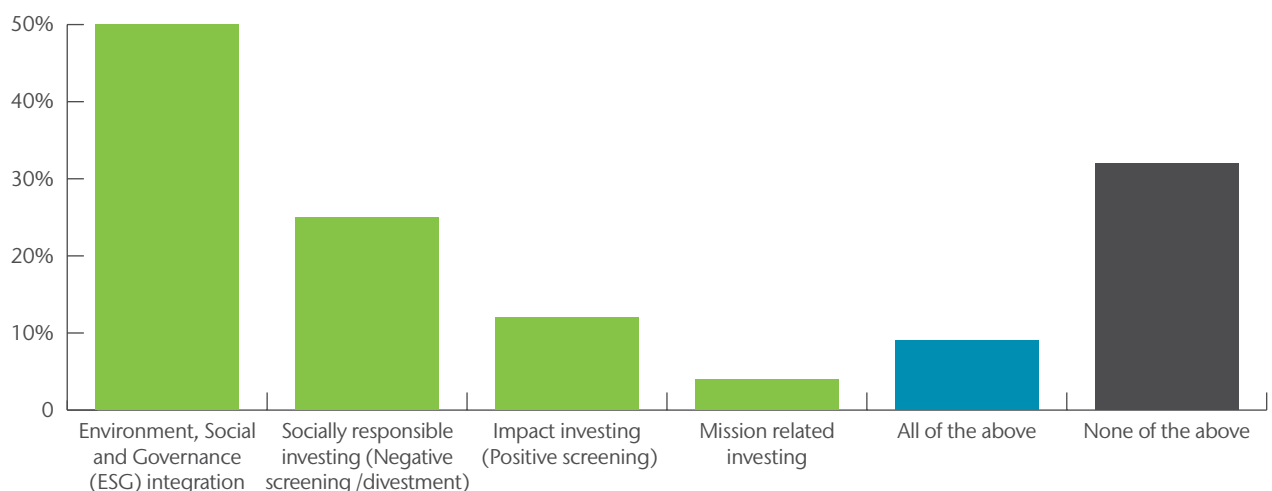
As a result, 31 percent of those polled indicated they are implementing responsible investment strategies to comply with local regulations on climate change, ESG or other RI issues, although some of those polled indicated they are a little frustrated with the process. “Some current regulations make this work more difficult,” lamented one respondent, while another quipped “regulators are getting in the way as normal.” Still others are trying to work with regulatory bodies proactively, stating that they “are performing ESG over and above regulations and try to contribute to regulations.”

In the UK, where many of the latest regulatory changes have been focused, 57 percent of respondents indicated regulations were a motivating factor for RI. In the US and Canada, where the regulatory response has been considerably slower and more tepid, only 17 percent and 8 percent of respondents, respectively, indicated regulations were motivating their RI initiatives. Roughly 30 percent of Canadian investors are opting to take a “wait and see” regulatory approach, along with 27 percent of those polled in Continental Europe and 17 percent of respondents in the US. When looking at investor types, nearly half of public pension respondents, 45 percent, indicated they are motivated by increased RI regulation.

Still, some respondents indicated they are acting independently or even ahead of local regulations. One respondent stated their primary motivation for RI was “[b]ecause we believe it is the “right” thing to do and that we end up with better investments,” while several others offered variations on “[w]e implemented our RI policy absent any threat of regulation and do not expect any.” Of course, there is some resistance to the regulatory pressure many investors are feeling, with one respondent asking that governing bodies “not force pensions to allocate to responsible investments, this will lead to conflicts on fiduciary duty.”

Of the four Aon-defined sub-types of responsible investing, investors that are active in responsible investing seem overwhelmingly to favor the integration of ESG factors into investment decisions (50 percent) over other types of RI. Socially Responsible Investing (SRI) comes in second at 25 percent, mostly based on the strength of respondents from the US, where a higher percentage of respondents (26 percent) indicate they engage in SRI. This may be due to the investor profile of US respondents, however, which included a large number of public pensions. In the US, state legislatures have sometimes required divestment from or exclusion of investments from certain sectors or countries.

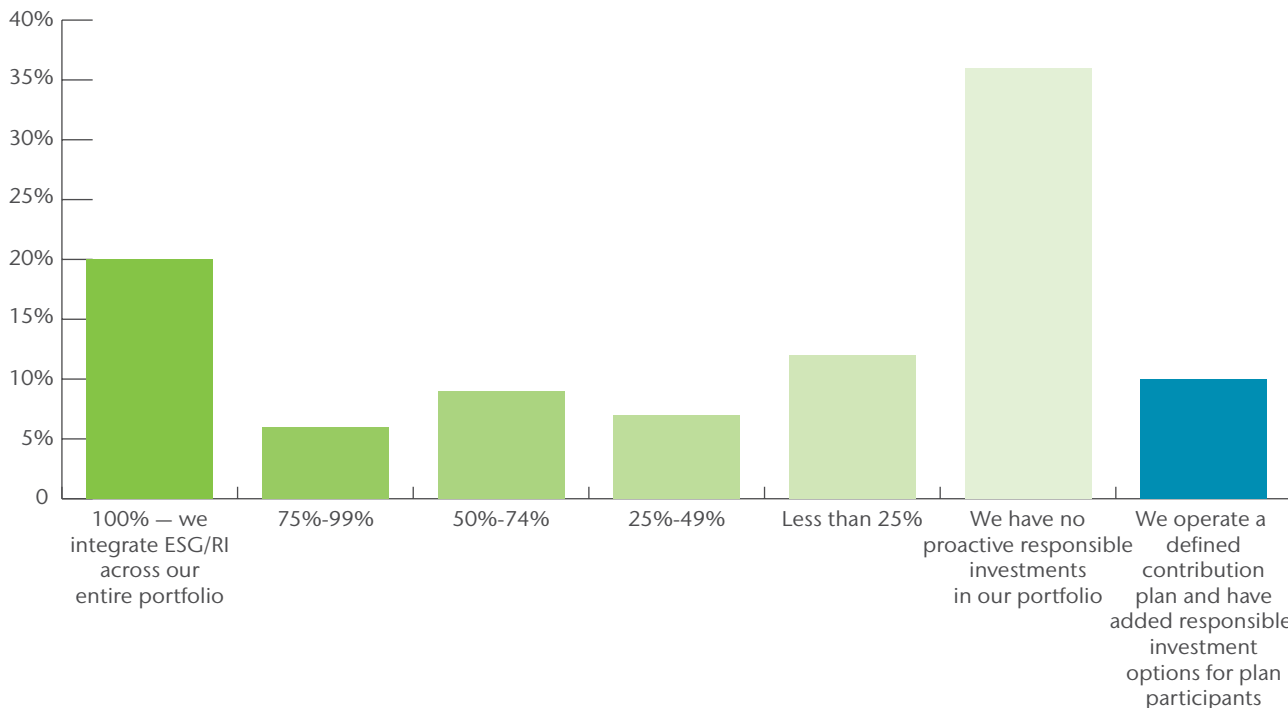
Figure 15: Responsible investing by type of investment



The most prominent example of this is the widespread Iran and Sudan divestments that were enacted from 2006–2008.¹¹ This theory is bolstered by the fact that public pensions were the most likely investor type to indicate they engage in SRI investing (29 percent). Impact investing ended up in third

place, at 12 percent (roughly four percentage points higher than 2018’s total). Endowments and foundations were, not surprisingly, the most likely investor type to engage in both Impact Investing and Mission Related Investing (MRI), at 19 percent and 8 percent of those respondents, respectively.

Figure 16: Percent of portfolio dedicated to responsible investments



“The US was the most likely region to add a RI defined contribution option, with 16 percent of respondents indicating that such an offering had been added to their plan. Indeed, in recent outside surveys, US workers have indicated a strong desire to make the world better while growing their assets.”

Assets allocated to some type of responsible investing strategy have noticeably increased since the last survey as well. In 2018, 51 percent of those polled indicated they had no responsible investments in their portfolios. In 2019, that figure dropped to 36 percent. At present, public pensions are the most likely to have 100 percent of their assets in responsible investments, and/or integrated with ESG, at 22 percent, while respondents from the UK were the most likely geographic group to be 100 percent RI committed (also 25 percent). Respondents from the US and Canada were the least likely to have responsible investments of any kind, with 48 percent and 52 percent stating they had no proactive responsible investments in their portfolios. However, the US was the most likely region to add an RI defined contribution option, with 16 percent indicating that such an offering had been added to their plan. Indeed, in recent outside surveys, US workers have indicated a strong desire to make the world better while growing their assets. In a recent Natixis survey, for example, 6 out of 10 workers polled wished to see more socially responsible investment options in their plans while another 74 percent saw a profit motive for embracing ESG investing.¹²

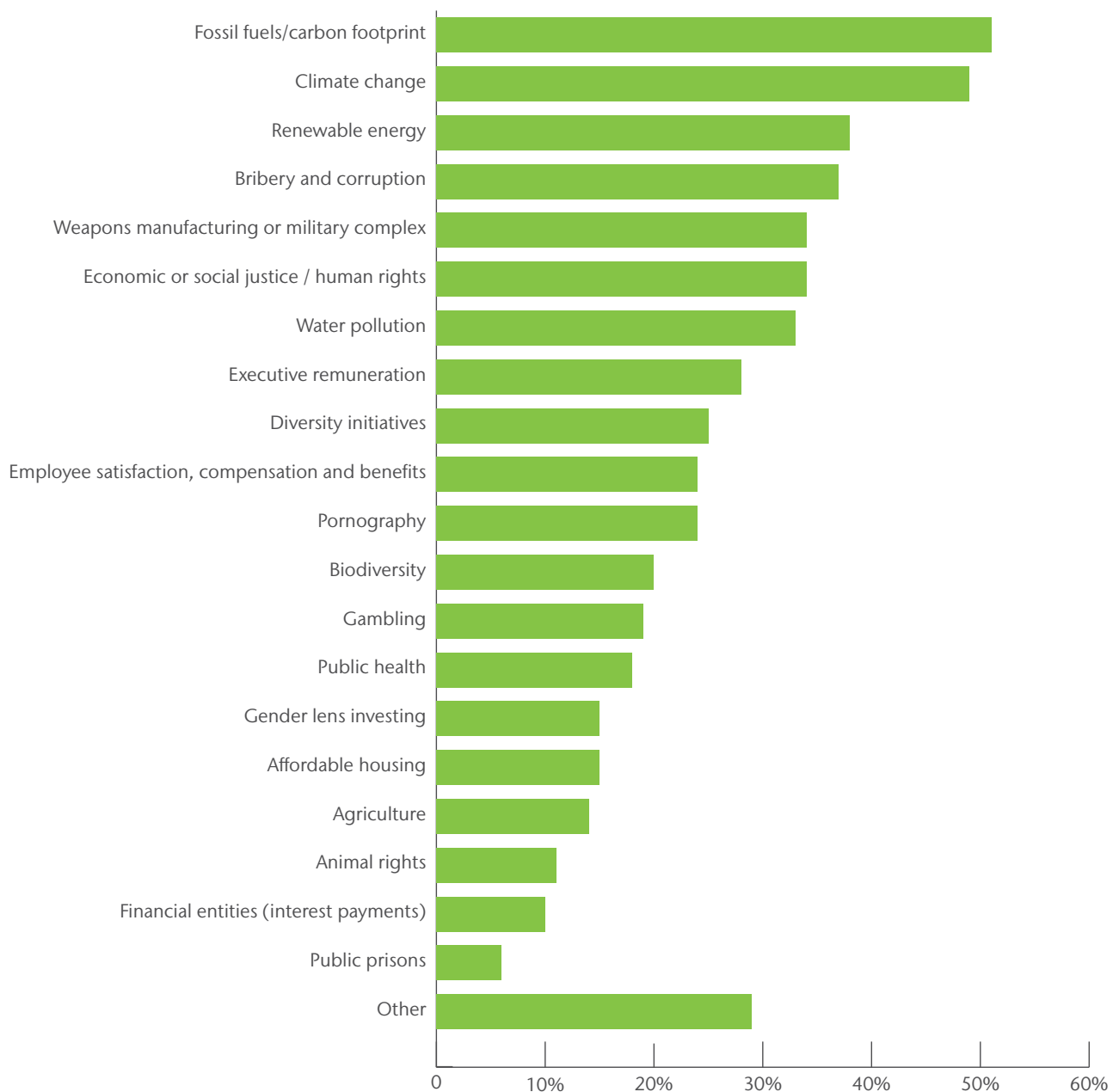
¹¹ National Conference of State Legislatures State Divestment Legislation as of April 1, 2008.

¹² <https://www.im.natixis.com/us/press-release/natixis-investment-managers-releases-2019-defined-contribution-survey>.

Finally, we asked investors about the issues they screen or manage their portfolios for and were not surprised by the answers. All investor types agreed that fossil fuels/carbon footprint and climate change ranked first and second among screens. In fact, it would seem that investors are becoming increasingly attuned to climate issues as the top three choices were climate related and each saw noticeable increases in respondent scrutiny from our 2018 survey.

Investors are increasingly attuned to climate issues, carbon footprints, renewable energy, bribery and corruption, weapons manufacturing and other global risks.

Figure 17: What investors screen for



Responsible investment manager selection



When it comes to how investors express their RI initiatives, we have already established that a majority of organizations delegate authority either to outside investment managers or consultants, and the chart below merely confirms that data point. Consistent with what Aon sees in the market, investors also indicated they are highly likely to express RI through their long-only investments (29 percent) or shareholder engagement (23 percent). Most of the data was similar across demographic groups, although larger firms were somewhat more likely to pursue shareholder engagement activities than smaller firms.

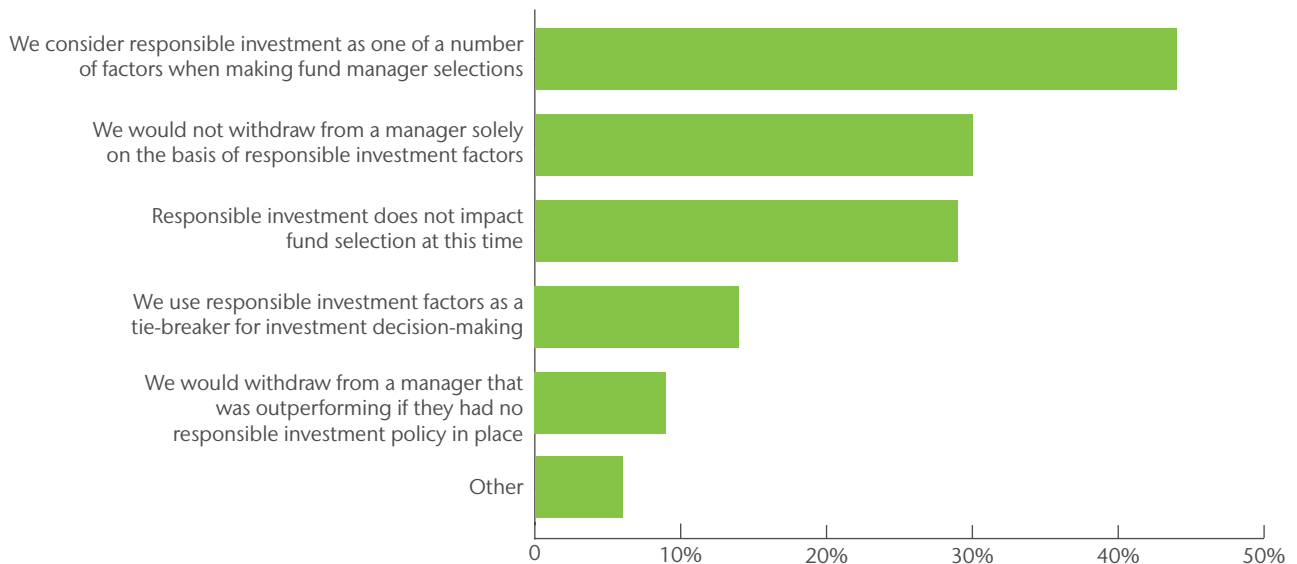
In addition, as in last year's report, Exchange Traded Funds (ETFs), or passive investments, and hedge fund RI uptake remain low. The percent of investors who look to ETFs/passive funds for responsible investments actually declined from 8 percent to 6 percent, while hedge funds saw a slight increase from 4 percent to 7 percent over the last year.

Once investors have determined how they wish to incorporate responsible investments into a portfolio, they must begin the process of manager selection. The majority of those polled (44 percent) indicate that they consider RI as one of a number of factors when selecting managers. Larger firms (\$5 billion+) were the most likely to indicate that RI was one factor in their investment decisions (44 percent) while only 29 percent of small firms agreed.

Figure 18: How do you express your responsible investments



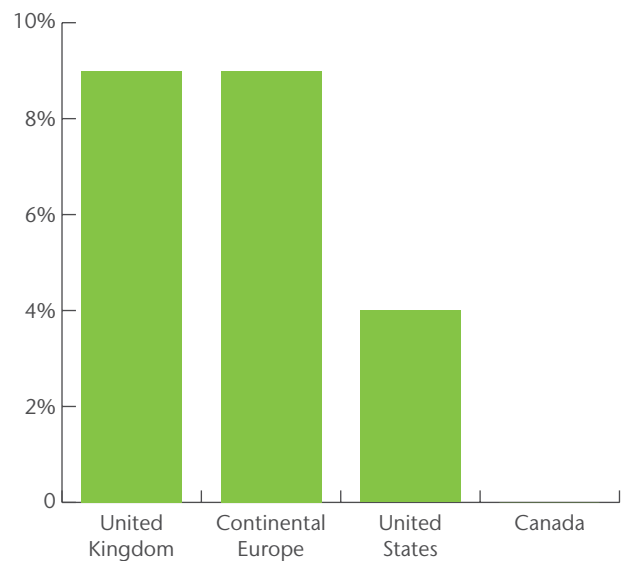
Figure 19: Impact of RI on manager selection



In addition, despite gains in overall investor sentiment towards RI in the United States, 44 percent of those polled indicated that RI plays no role in their investment decision making, compared with 29 percent in Canada, 27 percent in Continental Europe and 11 percent in the United Kingdom. Globally, the number of respondents who do not consider RI in the manager selection process dropped from 37 percent to 29 percent.

Finally, as with our 2018 study, very few investors stated that a manager’s lack of a RI policy was a firing offense if a fund was otherwise performing well. Investors in the UK and Continental Europe were most likely to find that a lack of attention on RI was a firing offense, while only 4 percent of those polled in the US (and none in Canada) concurred.

Figure 20: Percent of investors by geography who consider lack of responsible investment a “firing offense”



“Despite gains in overall investor sentiment towards RI in the US, 44% of those polled indicated that RI plays no role in their investment decision making, compared with 29% in Canada, 27% in Continental Europe and 11% in the UK. Globally, the percent of respondents who do not consider RI in the manager selection process dropped from 37% to 29%.”

With nearly half of the survey respondents indicating that RI was a factor in manager selection, we wanted to know what made a manager more attractive from this standpoint. Clear reporting was an issue cited by 56 percent of those polled, with one investor going so far as to complain that “[r]eporting standards for asset managers are a jungle for investors. What should investors look at, which standards are good one, which bad ones?” Investors also craved integrated RI policies (49 percent) and a strong track record for RI performance (46 percent). Clear reporting was also the top demand by investors in our 2018 survey (tied with clear engagement policies), although an even higher percentage cited it as a differentiating factor in this year’s survey.

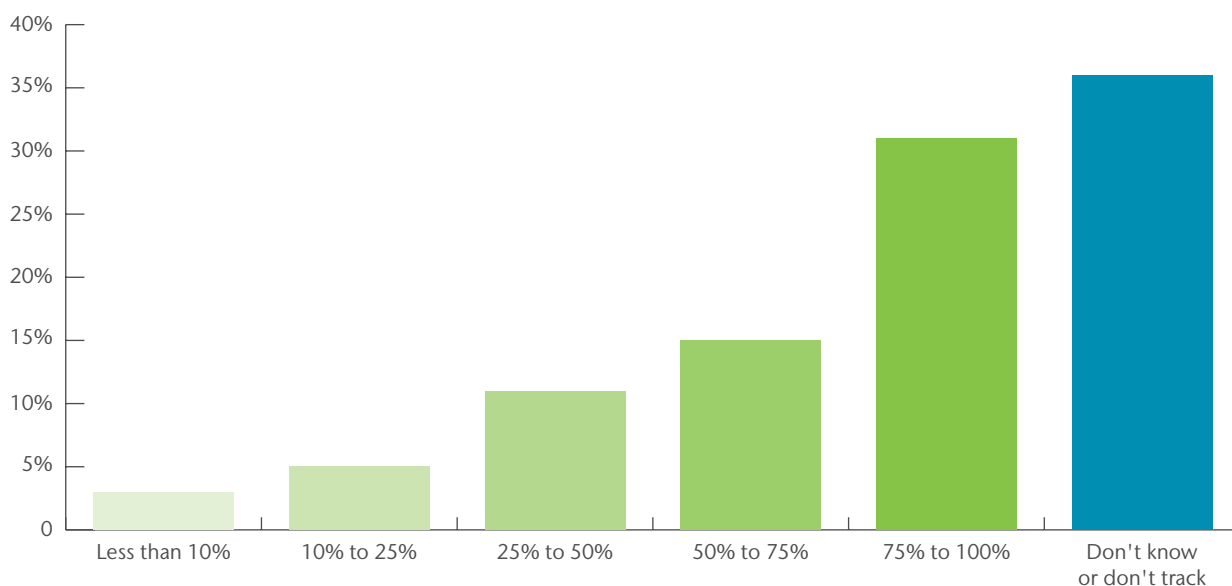
Figure 21: What makes a responsible investment manager attractive?



The need for a strong track record also increased in importance over the last 12 months, with defined contribution plans the most likely cohort to require this from managers. However, the fact that there was such an even spread amongst the chosen responses likely means that one of our more laconic comments was spot on when it comes to what investors look for when considering RI and manager selection. That respondent merely stated “competence.”

“The percentage of respondents who indicated that 75% to 100% of their external fund managers have RI policies edged up slightly, from 29% in 2018 to 31% in 2019.”

Figure 22: Percentage of portfolio managers with RI policies in place



Finally, we asked investors to tell us what percentage of their external fund managers have RI policies in place. As with last year’s survey, the response “don’t know or don’t track” was the most popular option for respondents, with a percentage that was relatively unchanged year over year. It should be noted however that, based on the comments provided, some investors indicated they do not track RI simply because they do not use external fund managers.

The percentage of respondents who indicated that 75 percent to 100 percent of their external fund managers have RI policies edged up slightly, from 29 percent in 2018 to 31 percent in 2019. Public pensions were the most likely to have high levels of RI coverage, with 55 percent indicating up to 100 percent of their managers have policies in place, while defined contribution plans were the most likely to not know or track the status of investment manager RI policies. Geographically speaking, US respondents were the most likely to indicate they don’t know or track the presence of RI policies at their external managers, while UK investors were the most likely to have high levels of RI policy coverage — 42 percent indicated up to 100 percent coverage.

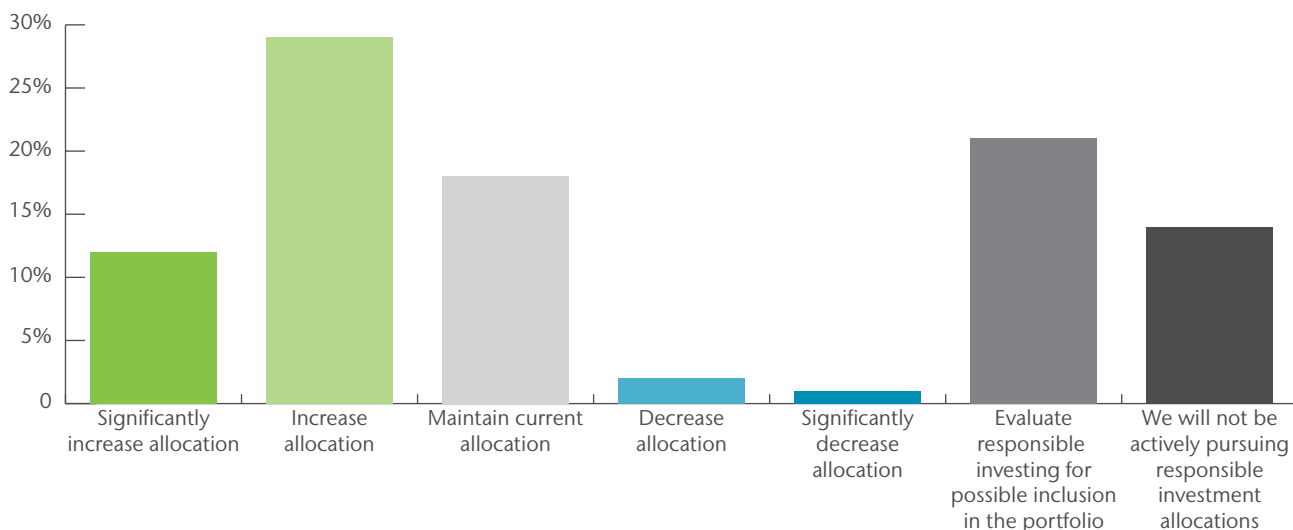


Future of institutional responsible investments



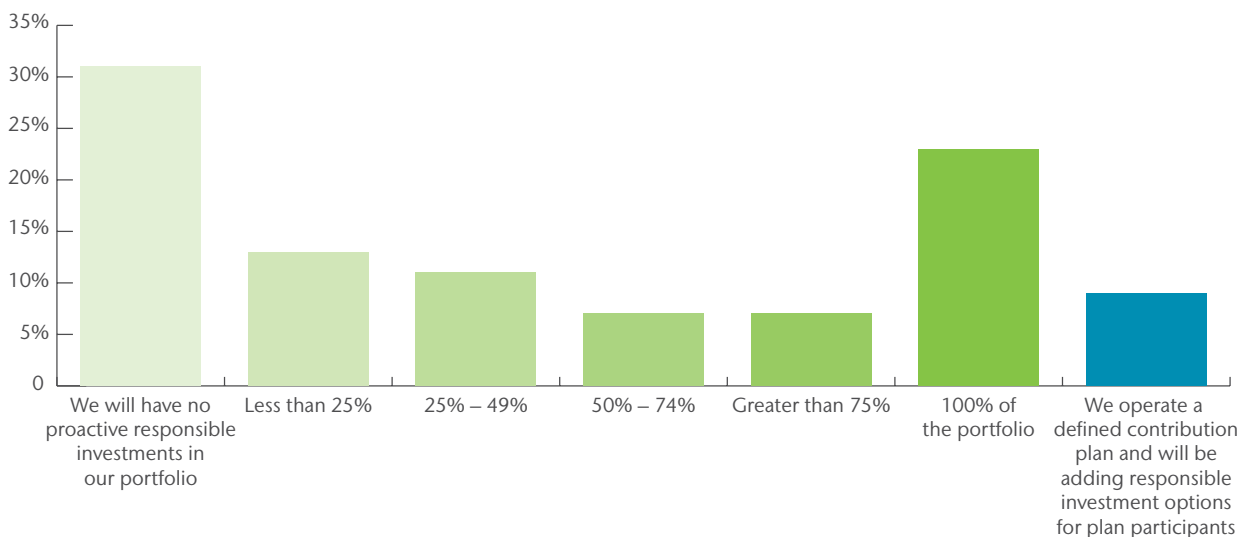
Given the meaningful upswing in sentiment across geographies and investor types, the future of RI appears bright. For example, in 2018, 43 percent of survey respondents reported they planned to maintain or increase their responsible investments in the future. In 2019, that figure jumped to 59 percent of respondents. Public pensions and defined contribution plans were the most likely investor types to indicate they would significantly increase their RI investments in the future, at 22 percent and 16 percent, respectively.

Figure 23: Role of responsible investments going forward



Investors further quantified their intentions by providing their target responsible investment allocations for the future. While 23 percent of those polled are targeting 100% portfolio allocation to RI in future, 31 percent stated they do not have targets for proactive responsible investments. Perhaps the comments left for this question tell a more nuanced story. The vast majority of comments indicated that the development of RI targets was “under development”, “not yet set”, or “yet to be decided but under consideration.” As a result, we could well see higher and clearer targets down the road.

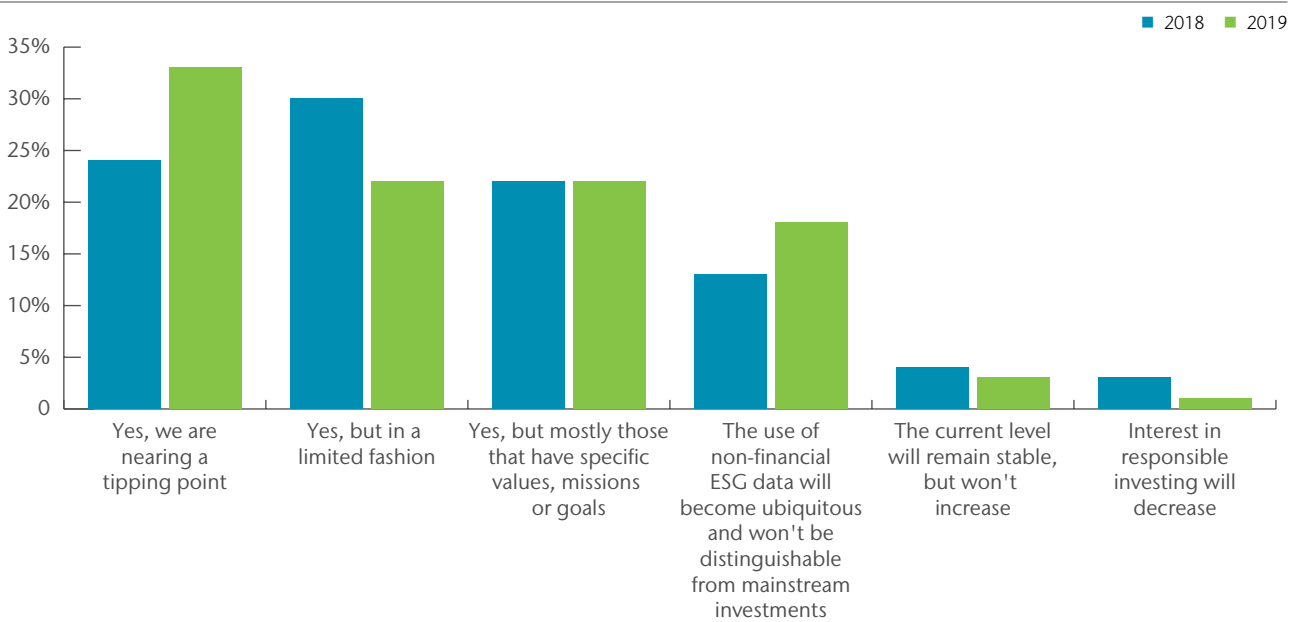
Figure 24: Target allocations to responsible investments



In fact, the percentage of respondents who believe we are nearing a tipping point increased. In our 2018 survey, roughly one-quarter of respondents said an RI tipping point was near, while in 2019 that figure increased to one-third. Some respondents continue to believe that the interest in RI will be short-lived stating “it will increase for a time, then decrease” or that more time and data was needed before actual significant change was possible. “It’s a box-tick for most,” said one respondent. “It’s a vast nebulous topic with limited agreement about what collective action will really work,” said another.

Others, however, were less sure. Some stated that the growth of RI was assured as it was “driven by regulations,” while others said that they “believe [RI] is gaining traction but the forms responsible investing take will change as standards for disclosure and metrics for sustainability factors increases and becomes ingrained in financial analysis.” Based on the responses to our survey, it appears that a growing number of institutional investing peers agree with the last statement. Eighteen percent of those polled believe that the use of non-financial ESG data will become ubiquitous and won’t be distinguishable from mainstream investments, an increase of five percentage points year over year.

Figure 25: Nearing a responsible investing tipping point?



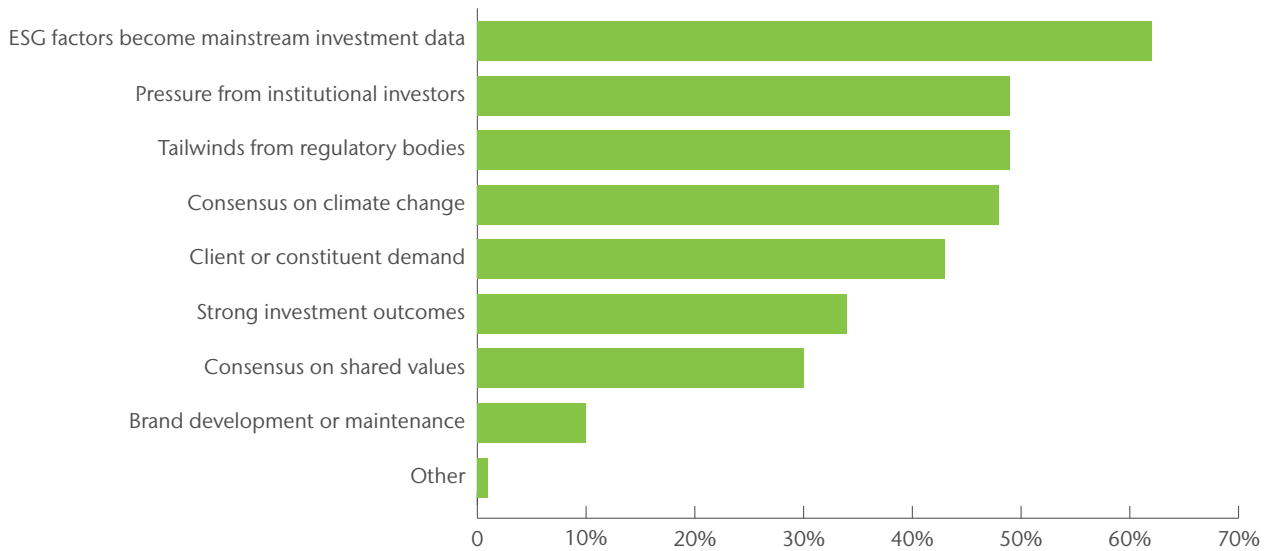
“Climate change/natural disasters, nationalism/protectionism and socioeconomic inequality ranked first, second and third among investor concerns.”

When asked a different way, even more respondents were certain that at least the ESG component of responsible investing would move into the mainstream. Sixty-two percent of those polled believe ESG will be mainstream going forward, an increase over 2018’s 57 percent tally. Roughly the same percentage of respondents as last year think pressure from institutional investors will be a key driver in the future (51 percent versus 49 percent), with one respondent stating, “[i]nvestment firms respond to demand. Their interest is absolutely driven by investors, products are provided or closed entirely based on demand.”

Interestingly, “tailwinds from regulatory bodies” leapt into the top three drivers of RI this year after not making the top five responses in our 2018 report. However at least one respondent thought investors should do more to advance regulations around sustainability, climate change and responsible investing, stating, “[i]nvestors are currently far ahead of politicians on many RI issues. It is critical that they apply pressure to governments to adopt necessary policies, not just on investee companies.”

Respondents also were more convinced that a consensus around climate change would be a driver of RI going forward, with the percentage climbing from 38 percent in 2018 to 48 percent in 2019.

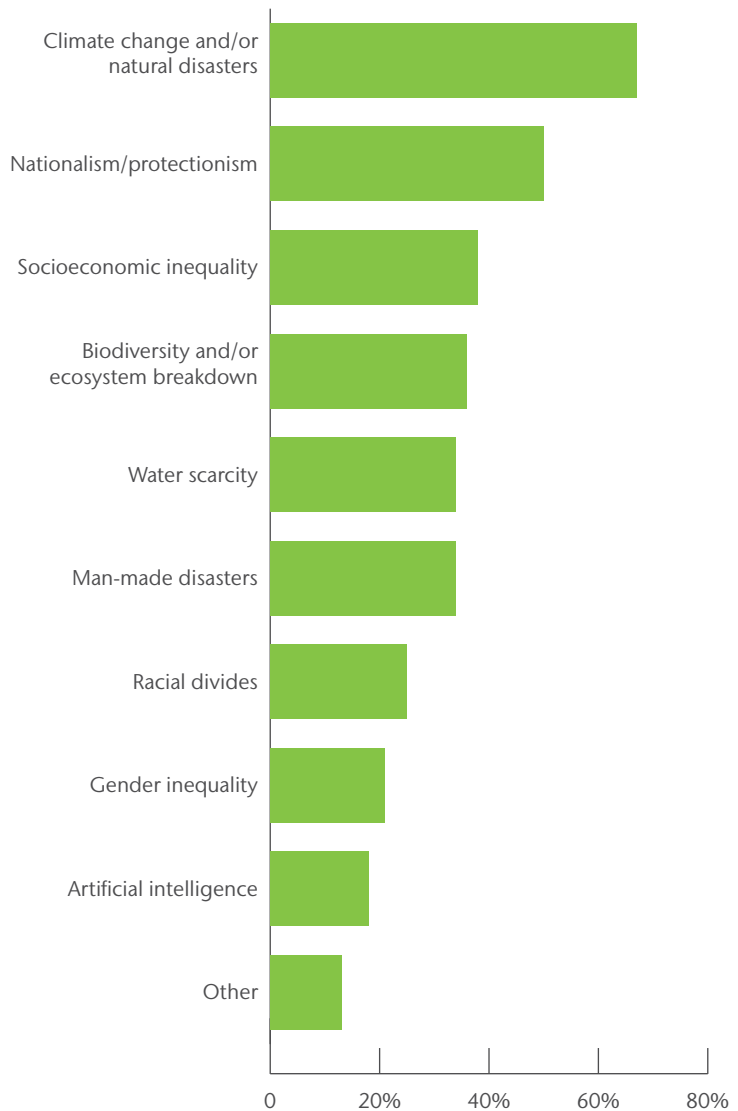
Figure 26: Key drivers of responsible investing



Indeed, institutional investors remain concerned about a variety of global problems, and mostly about the same issues as in last year’s survey. As in 2018, climate change/natural disasters, nationalism/protectionism, and socioeconomic inequality ranked first, second and third among investor concerns. Water scarcity dropped one spot from 4th to 5th place, edged by Biodiversity, a new entrant into investors’ top five global concerns. Biodiversity/ecosystem breakdown replaced manmade disasters on the top five in 2019’s list.

A few respondents indicated that all of these issues kept them up at night, while others offered additional concerns, such as child labor, cybersecurity and war. One investor echoed what many institutional investors have told us in one-on-one conversations, stating that “[w]e recognize that all of these factors could have potential to change the risk and opportunity sets we evaluate to some degree, though we are not concerned with any specific factor beyond those with financial impact in our analysis.”

Figure 27: What keeps investors up at night?



If, however, responsible investments are going to be in investors' toolkits to help mitigate these risks, work remains to make them more accessible. Better or more consistent data on ESG factors is a key issue for a majority of investors, followed closely by industry agreement on terms and conditions, compelling research on return profiles and agreement on ESG factors, including materiality. Perhaps not surprisingly, especially in light of US Department of Labor (DOL) guidance released in 2018, investors in the United States are still the most likely group to need more research on return profiles before doing more with RI.

In fact, unlike recent regulations released in the UK and EU, the DOL guidance from 2018 had more of a chilling effect on responsible investing for some US investors. Because of that and, to some degree, the prevailing political landscape, the US has dropped from the number two spot when respondents ranked the regions that will lead RI going forward. Continental Europe maintained the top spot in our 2019 survey, followed by the UK, the US and Canada. However, those polled in the US continued to expect great things from their peers, placing themselves firmly into the second-place spot. Canadian respondents did the same, putting Canada number two.

Figure 28: What would make responsible investing more accessible?

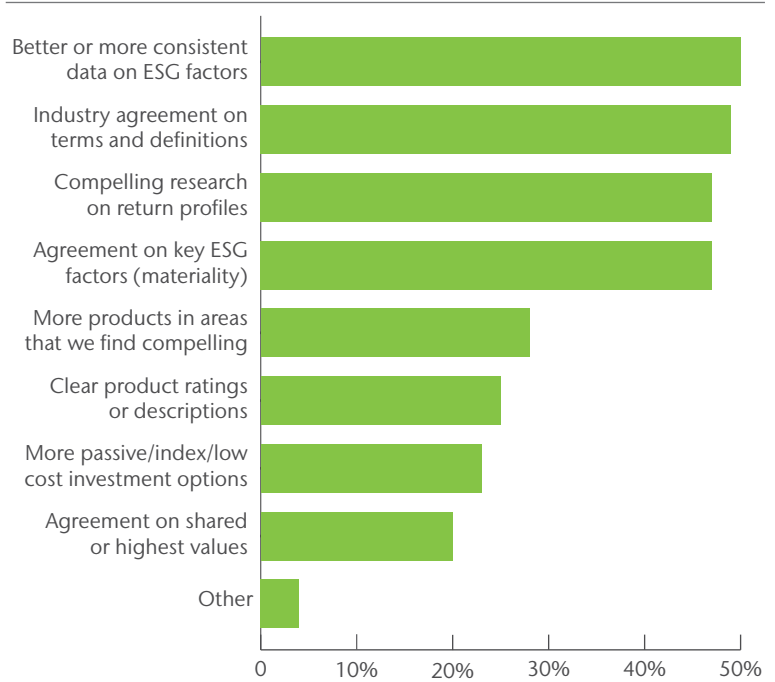


Figure 29: Leaders in responsible investing

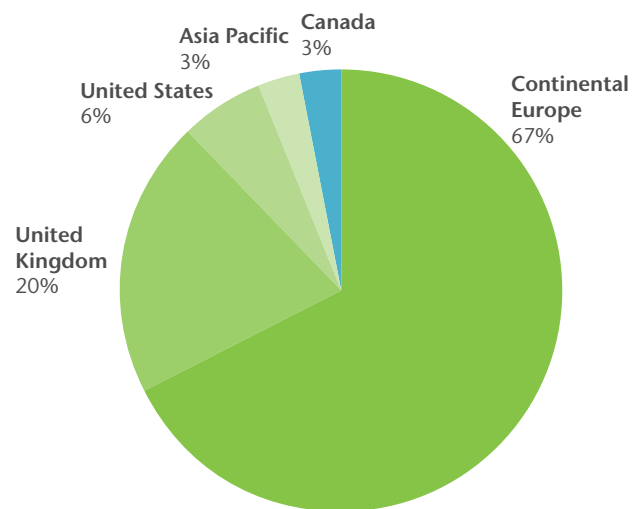
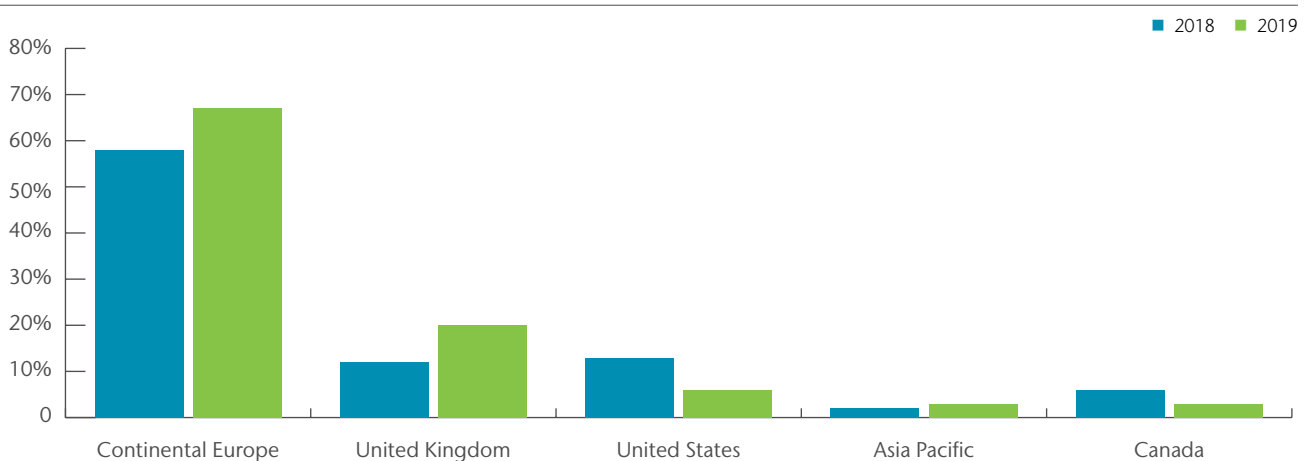


Figure 30: Year-on-year change in responsible investing leaders



Conclusion



The amount of progress and change we see in our survey results over the course of a single year makes one thing abundantly clear: responsible investing is officially a going and growing concern. Whether this momentum is sustained, fizzles or even accelerates will depend on a host of factors. Certainly, a changing regulatory framework stands to play a larger role, most notably around investor articulation and mitigation of environmental, social and governance risks. Meanwhile, some investors may increasingly embrace a role as global change agents, while others may stick with what looks to become progressively “mainstream” ESG integration. At this point, however, it looks like the question is how institutional investors will implement responsible investments, rather than whether they will or won’t.

In the meantime, we invite you to talk to us about how Aon can assist you on your responsible investment journey. We have a wealth of research and tools that can help investors explore or implement RI, whether they are just beginning to explore the topic or are looking to grow their responsible investing efforts.



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