Schroders

# Sustainability

## Institutional Investor Study 2022

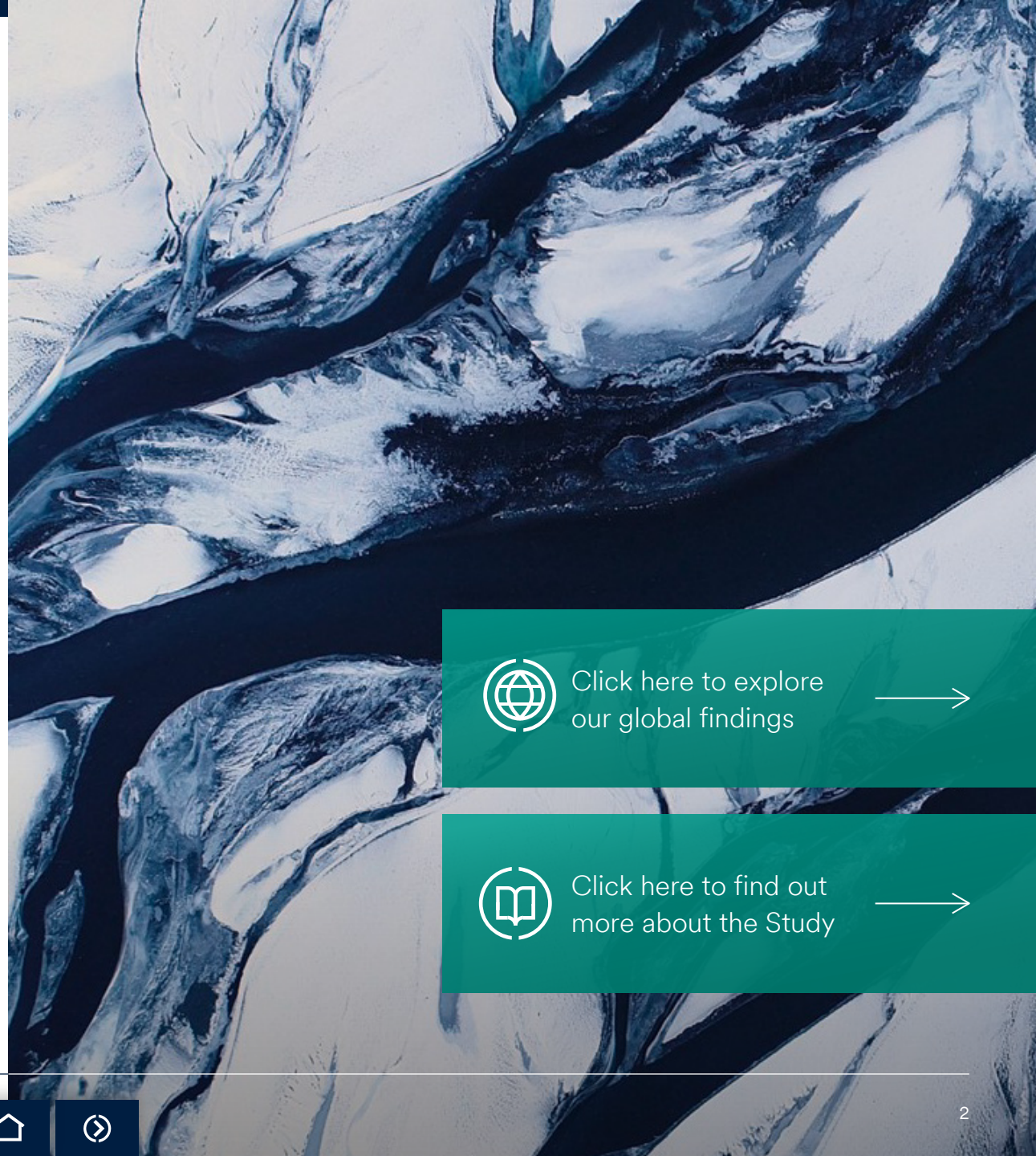
SCROLL TO EXPLORE

# About the Study

Schroders annual Institutional Investor Study analyses the investment perspectives of 770 global institutional investors on the investment landscape, sustainability and private assets.

The respondents represent a spectrum of institutions, including corporate and public pension plans, insurance companies, official institutions, endowments and foundations, collectively responsible for US$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022. The 770 institutional respondents were spilt as follows: 205 North America, 300 in Europe (including UK and South Africa), 215 in Asia Pacific (including Israel) and 50 in Latin America. Respondents are from 28 different locations.

Any opinions expressed reflect our Study and interview results as at the end of March 2022. They are not intended to be a forecast or guarantee of future results. Throughout the report, we complement our global findings with regional results and insights from Schroders experts.



Click here to explore our global findings

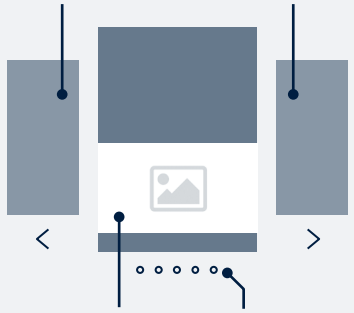
Click here to find out more about the Study

# Key global insights

Click on the panels to view more information on each of our key global insights

## How to navigate:

Click on the panel or arrow below to access the next or previous global insight



Click on the image or heading to find out more about this global insight

Click on a circle to quickly jump to the corresponding global insight

## Understanding the impact of investments is key for global institutions

1

This year's Study highlights that institutions across the globe are looking to understand the impact of their investments. This reinforces that investors are seeking out investments that help tackle social and environmental challenges that make a tangible positive impact to people and planet through their investments while also delivering financial returns.

2

1

# Demand for energy transition opportunities

2

When asked what would encourage investors to further adopt sustainable investments, 59% highlight new investment opportunities addressing the energy transition. This demand for thematic investment opportunities around decarbonisation highlights the climate-focus of institutional investors.

3

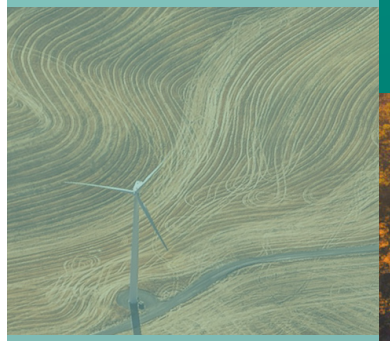
2

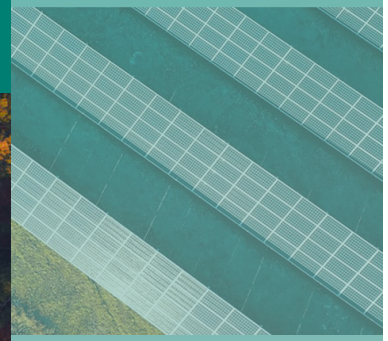
# The journey to net zero is underway

3

Across the globe, institutional investors are committing to align their portfolio to net zero with 39% of investors having already made a net zero commitment. A further 21% have made emissions reduction commitments, showing that the journey to net zero has very much begun.

4





3

# Real world outcomes and transparency are integral to active ownership

4

The importance of different features of an engagement strategy is measured by investors through the lenses of both real-world outcomes and performance. 59% of global institutions point to evidence of real world outcomes with a measurable improvement for a company's stakeholders as the most important feature while 53% point to greater transparency on the progress of engagements.

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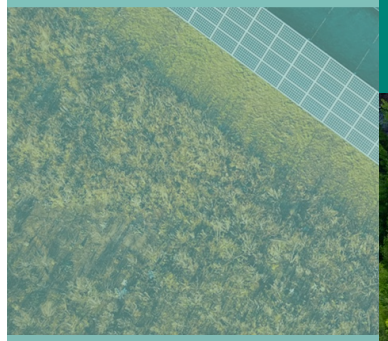

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# Performance concerns and consistent data are key challenges

Investor concern about greenwashing (54%) and the lack of transparency and data around sustainable investing (53%) continue to be the main concerns around sustainable investing. Anxiety over performance had been consistently falling year-on-year until this year which has seen market conditions change considerably due to the Russia-Ukraine conflict.

Continue to see messages from our Global Head of Sustainable Investment and regional heads

# A message from our Global Head of Sustainable Investment

**Andy Howard**
Global Head of
Sustainable Investment

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The findings of this year's Institutional Investor Study are clear; more and more institutional investors want to measure, manage and deliver impact. Recognising concerns over tensions between sustainable investment and return goals, it's becoming clear that thoughtful approaches grounded in investment experience will be increasingly critical. Just under half (48%) of investors said impact investing was their preferred approach to implementing sustainability, a significant increase on 38% a year ago and 34% in 2020. The Study also found that the importance of full ESG integration into the investment process also grew as a focus (75%, up from 67% in 2021), further cementing it as the most favoured approach among investors.

This annual Study shows that the ability to deliver, measure and demonstrate tangible impact is increasingly important to our largest clients and Schroders is committing significant time, resource and expertise to developing robust and rigorous solutions to meet that need. This focus also extends to offering solutions designed to support the energy transition among a spectrum of social and environmental goals, which is strikingly now one of the key priorities for investors going forward (59% highlight investment opportunities in energy transition as key to further sustainability adoption).

The Study's overarching focus on delivering real investment outcomes for investors was further evidenced by the importance placed on engagement. 59% stating that tangible evidence of real world outcomes was the most important component of any active ownership strategy.

Specifically, almost two-thirds of investors (64%) believed governance (e.g. transparency of voting and shareholder resolutions) was the top engagement theme. A focus on human rights and the climate completed the top three in terms of engagement priorities. Schroders' market-leading Engagement Blueprint, published this year, is setting new standards on active ownership as it maps out our ambitions and how we look to engage with companies to support and drive progress.

However challenges still remain, with lack of transparency around data and reporting being a major theme of this year's results. After a consistent year-on-year decrease around performance concerns, this has now jumped back up to a major challenge (53% from 38% in 2021). Anxiety over performance had been consistently falling year-on-year until this year – 53% of investors cited performance as a key challenge, up from 38% in 2021. As the Study was conducted in March, market conditions were changing considerably due to the Russia-Ukraine conflict.

We believe focusing on the long-term is key here. As we move through market cycles, investment strategies may perform differently. We have argued for many years that investing sustainably with a strong focus on robust returns should not be mutually exclusive, indeed thoughtful and considered approaches to sustainability are at the heart of delivering long-term investment returns.

# What do our Heads of Sustainability think?

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In this year's Institutional Investor Study, three-quarters of UK institutions have continued to identify the integration of ESG into the investment process as a preferred approach to sustainable investing, and now expect this as standard from their assets. However, the conversation is now starting to turn to impact and investing in strategies with a positive impact and importantly, being able to demonstrate and report on positive impact. It seems that the next stage of the journey for UK institutions is Natural Capital and Biodiversity - and that pathway is reflected in the results of this Study.

We are pleased to see that 68% of UK institutions selected new investment opportunities addressing the energy transition as critical to encourage further adoption of sustainable investments. This is consistent with the conversations we have been having with clients and a view we support; investment in areas such as renewable infrastructure, thereby supporting the energy transition coupled with the potential for stable inflation-linked returns is proving attractive for both UK pension and insurance investors.

Following recent regulatory requirements for UK schemes to publish their climate risk disclosures by the end of 2022, pension schemes are increasingly focused on their net zero investment obligations. Our study shows that 45% of investors have already committed to a net zero target by 2050, the highest among all regions. But clearly, a majority have not yet set a committed path and this is something we are working with many of our clients on.

**Claire Glennon**
Head of Sustainability, UK

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The 2022 Schroders Institutional Investor Study confirms once again how European investors have made sustainability an integral part of their investment activity, leading in the race to net zero, regulatory agenda, and commitment to their role in the planet and society.

Europe also continues to be ahead of the game in the regulatory space. The ambition of the EU Sustainable Finance agenda to channel flows into investments helping the transition to a greener economy, ensuring sustainability is embedded in every decision and fostering transparency is resulting in a number of regulatory developments which are a driving force for investors. 56% of European respondents mention the regulatory and industry pressure as a key driver of their sustainability focus, alongside the desire to positively impact society and the planet.

59% of European respondents say energy transition has become a key area to explore for future sustainability adoption, which is in line with the current policy environment. The focus on resources, climate and energy is the foundation of the many ambitious targets from the European Union, such as the Green Deal, and therefore it represents a rich pool of opportunities for companies and investors.

**Nathaele Rebondy**
Head of Sustainability, Europe

# What do our Heads of Sustainability think?

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As ESG investing thus enters the mainstream, it is ESG integration that is by far the most preferred approach for investors in North America, followed at some distance by thematic approaches as well as positive screening/best-in-class. This suggest that investors continue to be focused on mitigating risk and seeking out opportunity, and are looking at ESG investing in the context of maintaining durable financial returns in the long run.

In particular, this year's Study identifies a strong need for quantitative evidence and data to support investors' comfort with committing to sustainable investing. North American investors note that they would be encouraged to put more money into sustainable investments if they had more quantitative evidence about the financial considerations of investing sustainably, as well as more clarity about the different sustainable investment options available. The latter point is something new U.S. Securities and Exchange Commission (SEC) regulation is particularly focused on as well.

If the performance of naïve, passive ESG strategies falter, and the regulators circle the wagons, sustainable investing could be at a critical juncture. Investors express that they need more quantifiable evidence of the value and impact of ESG, and more clarity and transparency into how this investing is practiced and measured.

**Marina Severinovsky**
Head of Sustainability, North America

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This year's Schroders Institutional Investor Study demonstrates how quickly sustainable investing approaches have evolved in the Asia Pacific (APAC) region, as investors move beyond simple exclusionary and integration approaches to incorporating active ownership, measuring impact and setting net zero targets.

A large majority of APAC investors have made commitments to reduce emissions, many of which have pledged to reach net zero by 2050. This is consistent with the conversations we have been having with many of our clients, who are looking to understand the implications of these commitments to their investment portfolio. 59% of respondents thought greater consensus on frameworks and methodologies will help them with their net zero journey, and we believe it will be important for APAC stakeholders to have a voice in their development.

While the motivations and approaches of investors share many commonalities across and within regions, a closer inspection of the Study results shows individual market nuances that highlight the need for on-the-ground sustainability expertise.

**Mervyn Tang**
Head of Sustainability, Asia Pacific

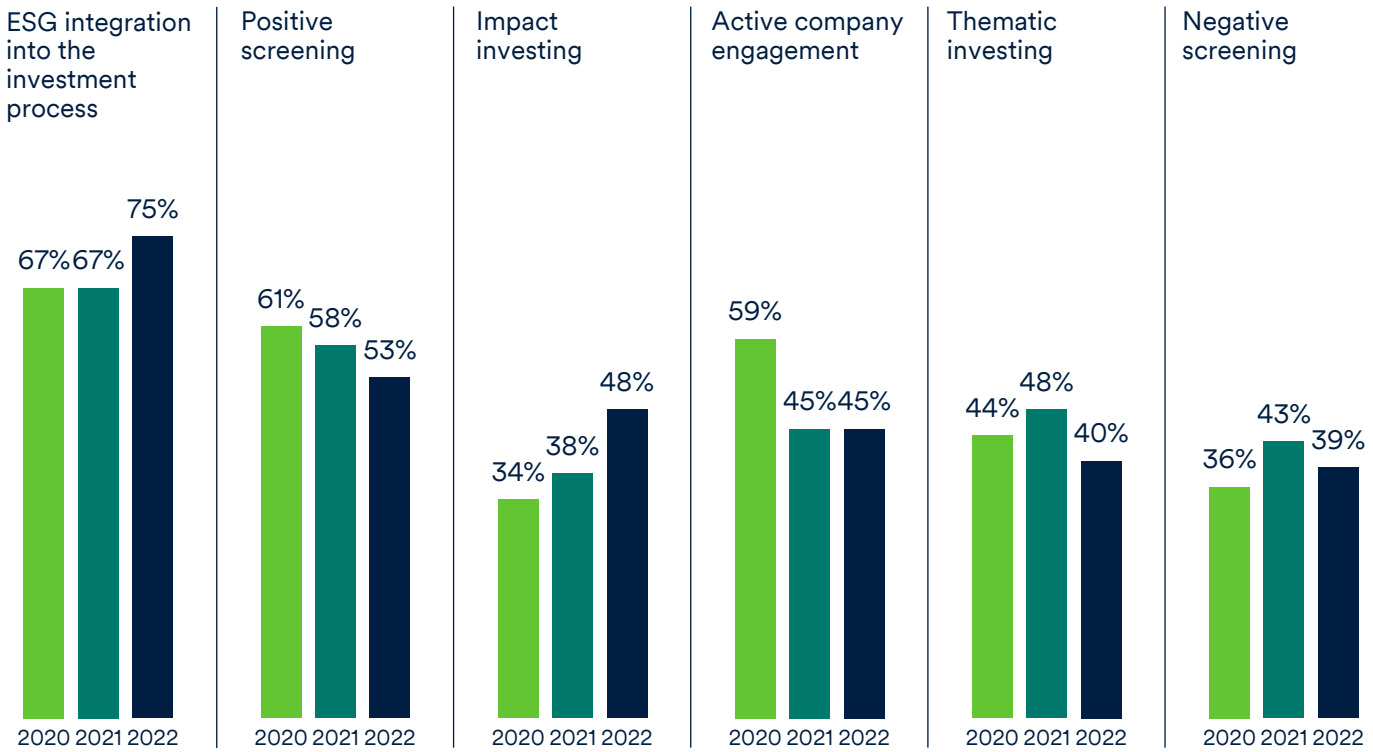
# Understanding impact of investments is key

Integration seems now to be the 'new normal' approach to implementing sustainable investing for global institutional investors, having been on a steady growth path for the last three years. It is now adopted by 75% of respondents, cementing it as the most favoured approach amongst investors. This is followed by positive screening at 53%. The data is clear, inclusive approaches are being viewed as an important aspect of achieving or driving change, rather than simply divesting which is now the least popular approach at 39%.

This year impact investing (investing with the objective of achieving environmental and social benefits alongside financial return), has seen the greatest increase of adoption over the last three years, moving from 34% in 2020 to 48% in 2022. This reinforces that investors are seeking out investments that help tackle social and environmental challenges that make a tangible positive impact to people and planet through their investments while delivering financial return.

Click here to see the regional breakdown of preferred approaches to implementing sustainable investments →

Q. What is your preferred approach to implementing sustainable investments?



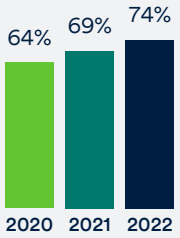

Respondents ranked approaches from 1-6. This graph shows %Rank 1+2+3

IN FOCUS

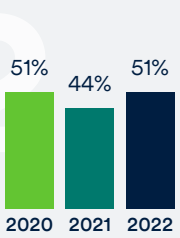
## Q. What is your preferred approach to implementing sustainable investments?

### North America

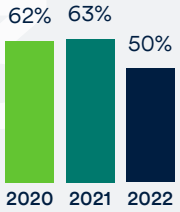
**1 ESG integration into the investment process**




**2 Thematic investing**

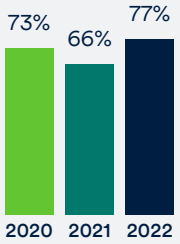



**3 Positive screening**

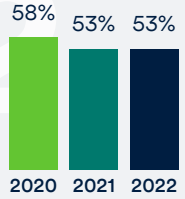



### UK & Europe
(incl. South Africa)

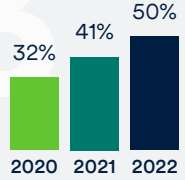
**1 ESG integration into the investment process**




**2 Positive screening**

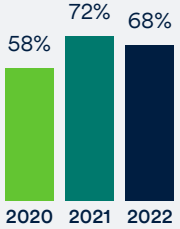



**3 Impact investing**

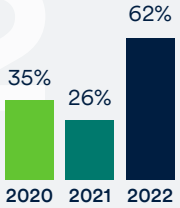



### Latin America

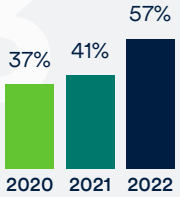
**1 ESG integration into the investment process**




**2 Impact investing**

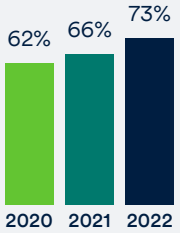



**3 Negative screening**

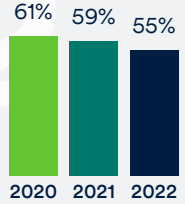



### Asia Pacific
(incl. Israel)

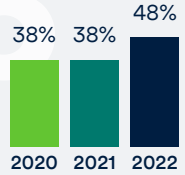
**1 ESG integration into the investment process**




**2 Positive screening**



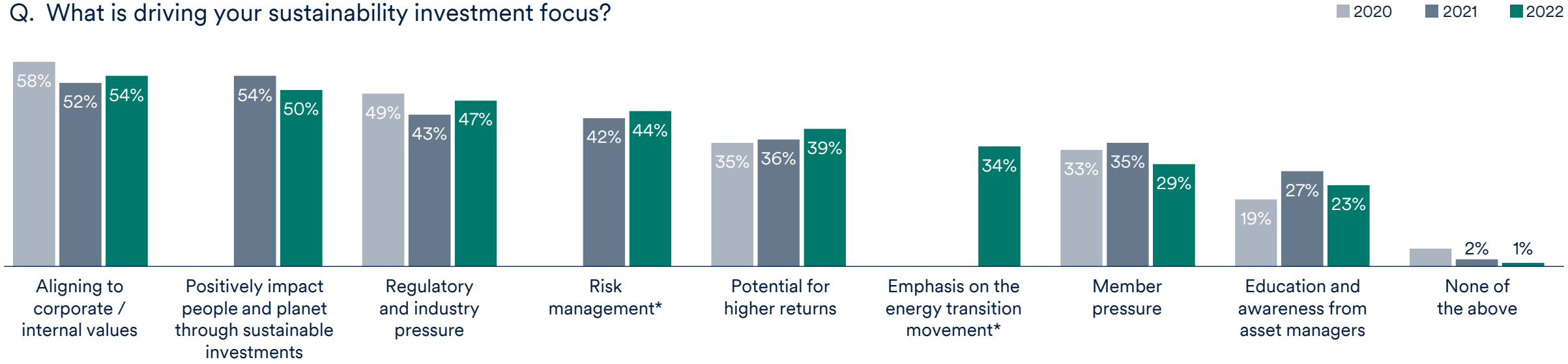

**3 Impact investing**




Respondents ranked approaches from 1-6. This graph shows %Rank 1+2+3

# Alignment to internal values and delivering impact are key drivers to invest sustainably

Q. What is driving your sustainability investment focus?




% Multiple answers allowed. * These options were not included in previous years.

Institutional investors' key motivation to invest sustainably seems to be a blend between internal pressures to align to corporate values (54%) and the desire to make an external positive impact on people and the planet (50%). Regulatory and industry pressure (47%) continues to be an important motive and has increased in importance from last year (43%). This is not surprising as we have seen an unprecedented number of new regulations emerge across the globe. The additional scrutiny has forced the industry to be more deliberate and purposeful in its analysis, reporting and controls it applies which we will see later on in the report when it comes to further adoption.

The potential for higher returns (39%) has seen a steady increase over the last three years, reinforcing that investors are looking to make an impact without losing financial returns. This is a further sign that investors are recognising that investing sustainability does not have to come at the expense of returns.

This year, we have seen increased attention being given to the energy transition (34%). The war in Ukraine has exposed our continued reliance on fossil fuels and the need to invest in new energy technologies and increased energy efficiencies to transition to a low carbon future.

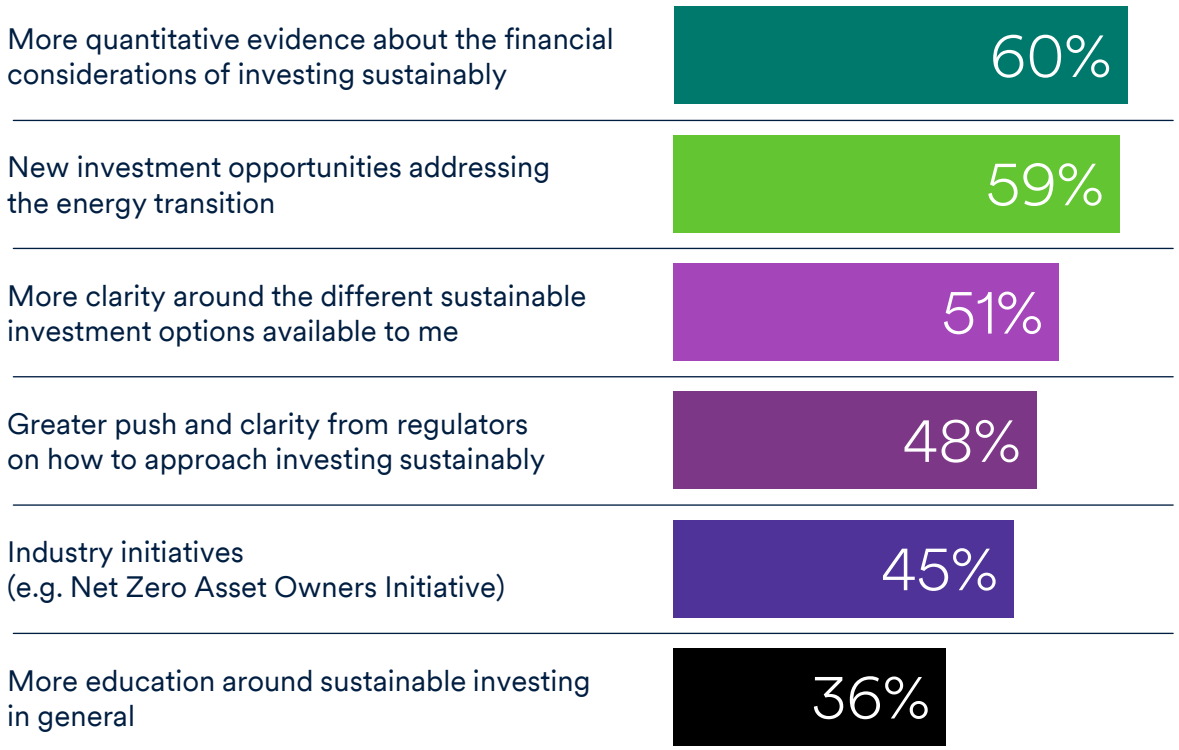
# Strong demand for energy transition opportunities

When asked what would encourage investors to further adopt sustainable investments, 59% state that new investment opportunities addressing the energy transition. This is particularly seen in the UK and APAC region where 68% of UK institutional investors and 62% of APAC investors highlight the need for more opportunities in the energy transition. These were also the regions where climate was one of the key themes they would like asset managers to engage with companies on.

This desire for opportunities to invest in the energy transition is a welcome sign. The UN's Intergovernmental Panel on Climate Change (IPCC) report, published in April 2022, highlights that major transitions in the energy sector, through reduction of fossil fuel use, widespread electrification and improved energy efficiency, is needed to halve emissions by 2030. Investments through public and private sectors can help facilitate.

In North America, institutional investors are still looking for more quantitative evidence around the financial considerations of investing sustainably. This was also the region that had less demand for climate solutions.

Q. What would encourage you to investment more in sustainable investments?

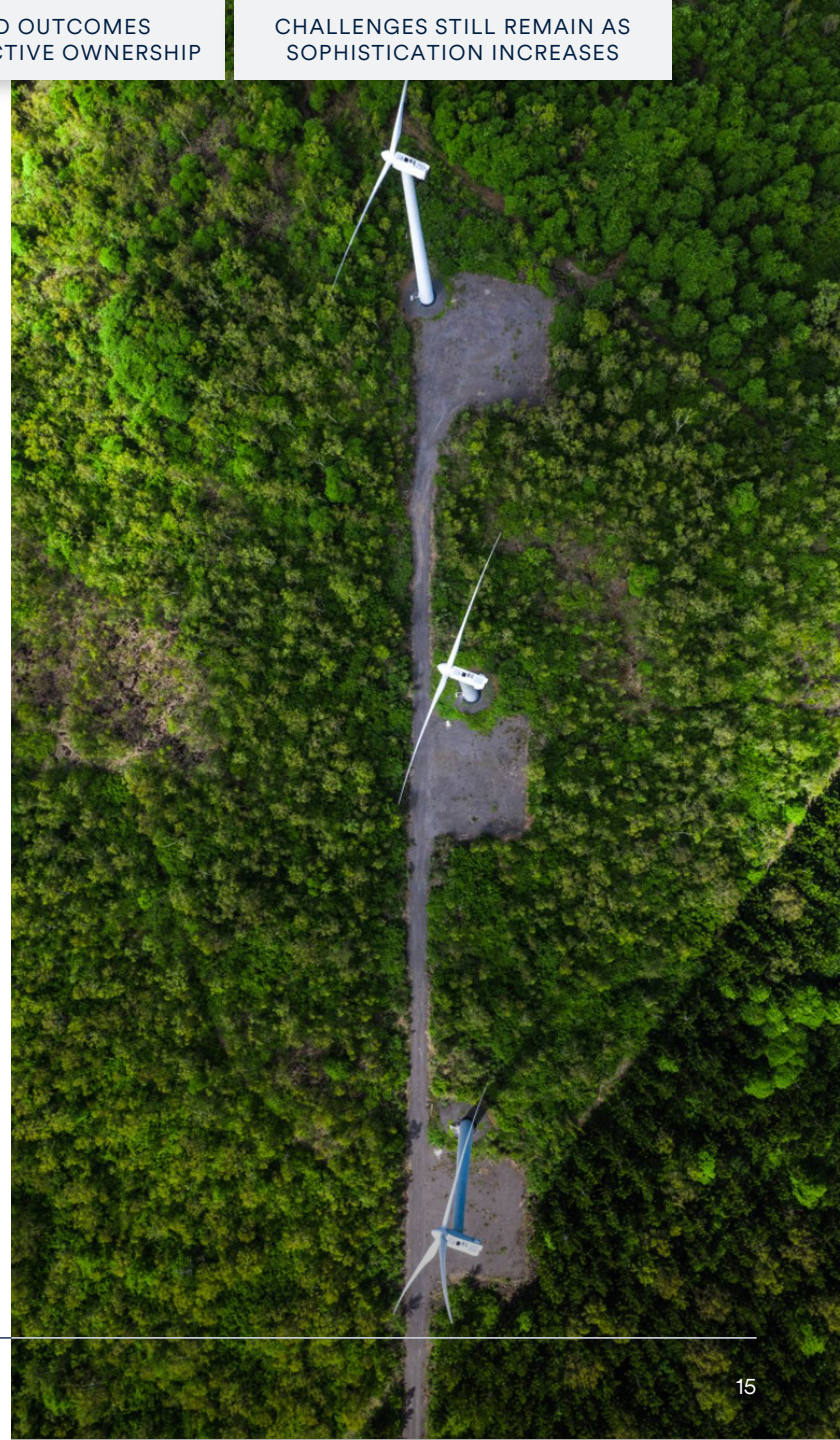



Respondents ranked answers from 1-7. This graph shows %Rank 1+2+3

"Governments and companies around the world are looking to accelerate towards net zero goals. As this takes place, the role that institutional investors can play in supporting the energy transition, through the provision of capital, will become significant and increasingly important, if those net zero targets are to be hit. It is clear from this year's Institutional Investor Study that there is a strong desire from global institutional investors to support the energy transition – indeed 59% of the 770 respondents are demanding more opportunities to be able to invest in it.

Between now and 2050, we anticipate that more than $100 trillion will need to be spent on achieving the transition to a more sustainable energy system, with even more to be spent on making the economy more sustainable. This spending will create opportunities for global institutional investors to capitalise on this unrivalled opportunity and the chance to meaningfully support the global transition to net zero. Schroders are at the forefront of creating these opportunities for our clients.

**Lieven Debruyne**
Global Head of Distribution



# The journey to net zero is underway

One of the greatest trends in the decades to come is decarbonisation. Nearly 90% of the world's GDP is now generated in countries with a net zero target (source: Net Zero Tracker, Post-COP26 Snapshot as at 25 November 2021). Across the globe, institutional investors are committing to align their portfolio to net zero with 39% of investors having already made or achieved their net zero commitment. A further 21% have made emissions reduction commitments, showing that the journey to net zero has very much begun.

Commitment to achieving net zero by 2050 is greater among UK & Europe and APAC investors (42% and 40%, respectively). One-third of North American investors are still exploring the transition but are not yet committed to specific targets.

Click here to see the regional breakdown →

Q. Where are you on your path to net zero?

37%
Committed to reach net zero by 2050

21%
Committed to reduce emissions but not to net zero

25%
Exploring transition but not yet committed

2%
Already achieved a net zero business model

15%
No viable pathway to transition / not currently considering pathway to transition

Data may not sum to 100% due to rounding

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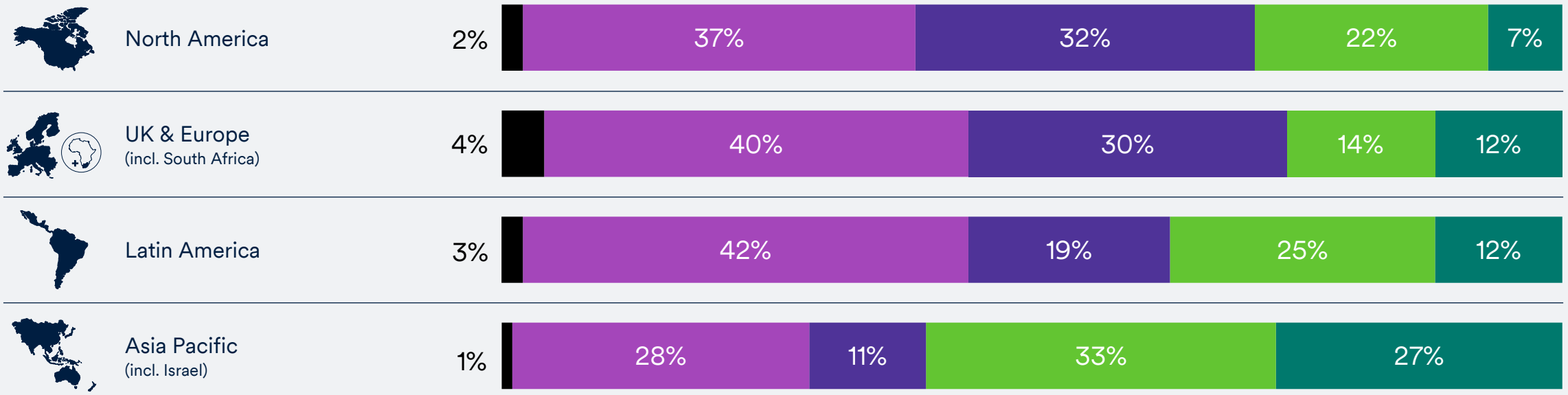
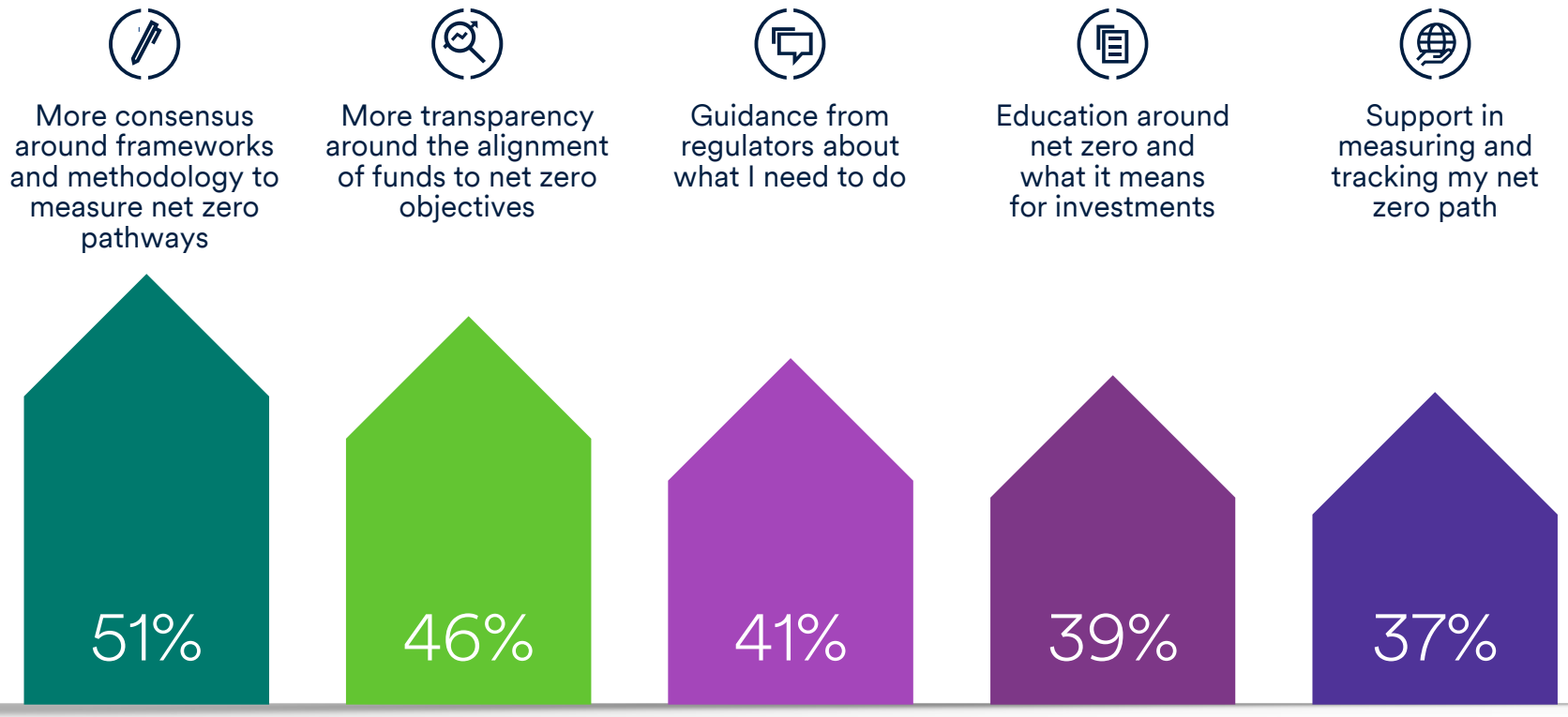
## Q. Where are you on your path to net zero?




Data may not sum to 100% due to rounding

# Consistent frameworks and methodology needed to help investors on their net zero journey

Q. What would help you on your journey to net zero?




% Multiple answers allowed

Half of institutional investors globally (51%) say more consensus around frameworks and methodology to measure net zero would help them on the journey to decarbonisation. This is followed by the need for more transparency around the alignment of funds to net zero objectives (46%). This echoes the comments made at COP26 by United Nations Secretary-General António Guterres, when he announced the decision to establish a group of experts to "propose clear standards to measure and analyse net zero commitments from non-state actors".

As institutional investors set their own net zero commitments, they are looking to asset managers to evolve their product suite to enable them to achieve their goals.

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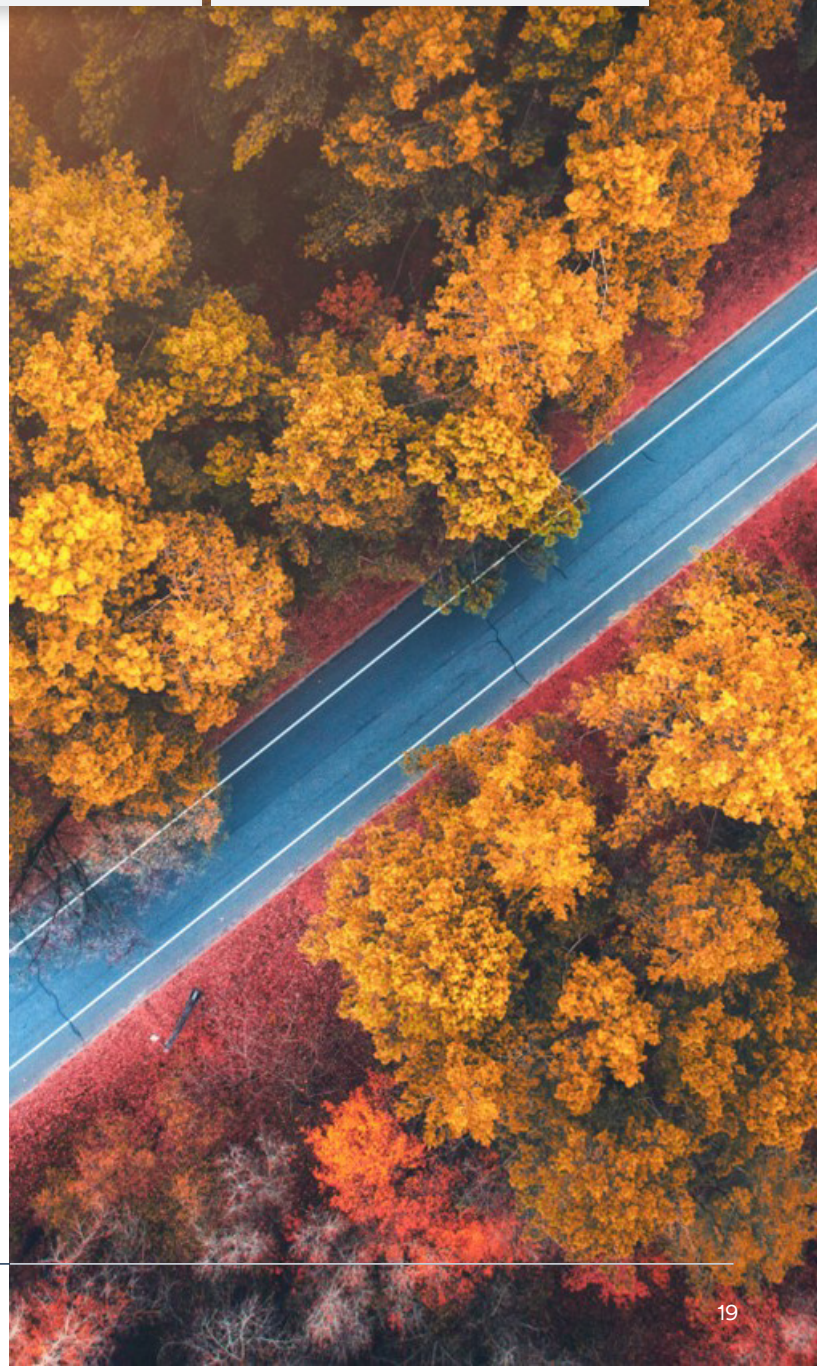
Many of our clients globally are thinking about, or have already set, net zero emission targets for their portfolios. However setting a target is only the first step of the journey. Our clients are thinking about their decarbonisation pathway, engagement strategy and investment in climate solutions, amongst other topics, as they think about how to reach their target.

As an active asset manager we have put our business on a pathway to net zero emissions, protecting the investments we manage against the risks that disruption will cause and giving our clients access to the opportunities presented by the transition. It is for that reason we committed to and submitted a science based target in 2021, which has subsequently been validated by the Science Based Targets initiative (SBTi).

We are working with our clients to share knowledge with one another, as we collectively progress towards net zero.

**Hannah Simons**
Head of Sustainability Strategy



# Real world outcomes and transparency are integral to active ownership

64% of global investors believe governance e.g. transparency of voting and shareholder resolutions is the top engagement theme, which is understandable as it underpins all ESG themes. We are seeing increased scrutiny of shareholder resolutions, especially on climate, and the growth of sustainability metrics in reporting.

Human rights follows closely behind as the second most important engagement theme (62%). The impact of Covid-19 is evident here, as investors are increasingly focused on the impact that companies have on their workers – such as through the supply chain, communities – such as through the impact of their operations, and their consumers – through the products and services they provide. Climate action and transparency over climate commitments comes in as a close third (61%).

Click here to see the interactive regional breakdown →

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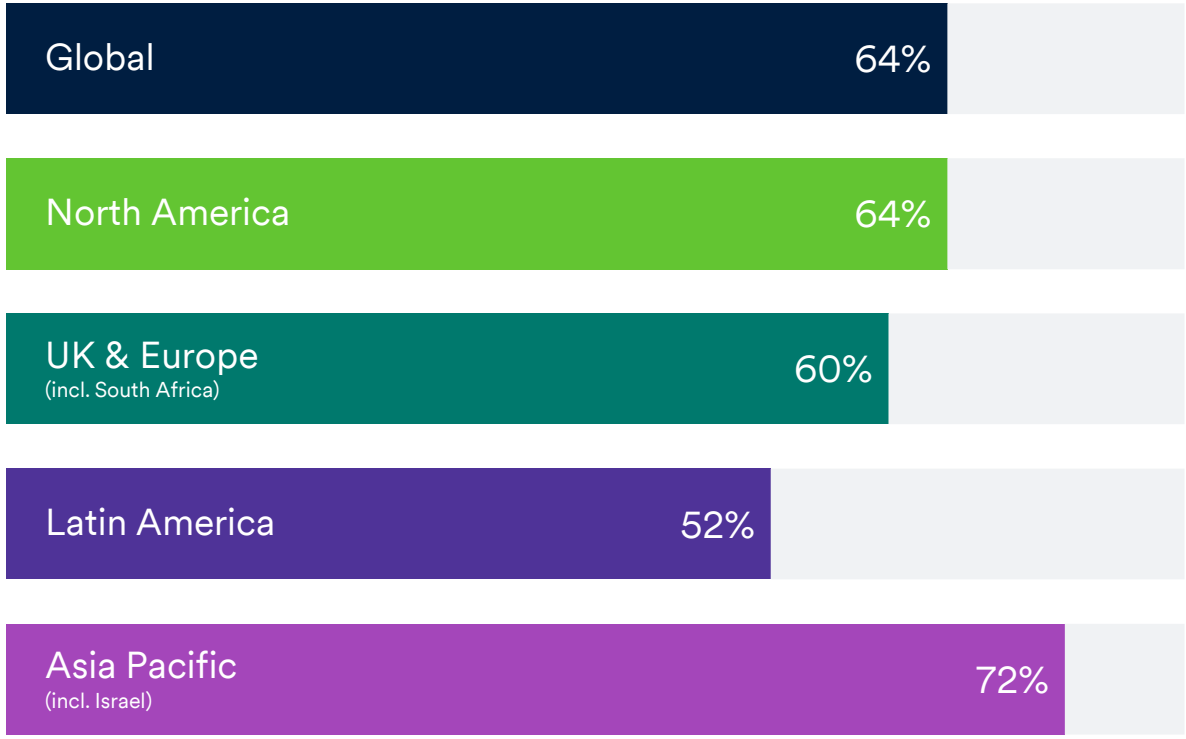
We are in an era of transition in many key areas, including climate change, equality, diversity and many more. Old ways of working are being upended and companies more than ever will need to adapt to thrive. As active managers, we have a critical role to play in supporting that transition. Engagement is one of the important tools we can use to influence the companies in which we invest, to strengthen the long-term value of those assets, enhancing outcomes for clients, and to accelerate positive change towards a fairer and sustainable global economy. This year we published our Engagement Blueprint which sets out what active ownership means at Schroders, how we engage with the companies in which we invest and what our clients can expect from us.

In this year's Institutional Investor Study, climate was particularly key for Europe and Asia Pacific, human rights and governance came up top for North America and in Latin America, human capital management was first. This demonstrates that while these themes affect investments globally, client priorities will vary regionally. Increasingly, we need to look at the interrelation of themes - such as the Just Transition, as well as how these themes materialise in different parts of the globe.

**Kimberley Lewis**
Head Of Active Ownership

Q. Investment managers and asset owners are often able to engage with and influence the behaviours of the companies that they invest in.

How important are the following to you?




Respondents rated answers on a scale from 1-5. % Important (4+5)

CLICK A THEME TO COMPARE GLOBAL & REGIONAL RESULTS

**Governance and oversight**
Transparency of voting and shareholder resolutions, particularly around climate and diversity issues

**Human rights**
Impact companies have on workers, communities and consumers

**Climate**
Climate action and transparency over climate

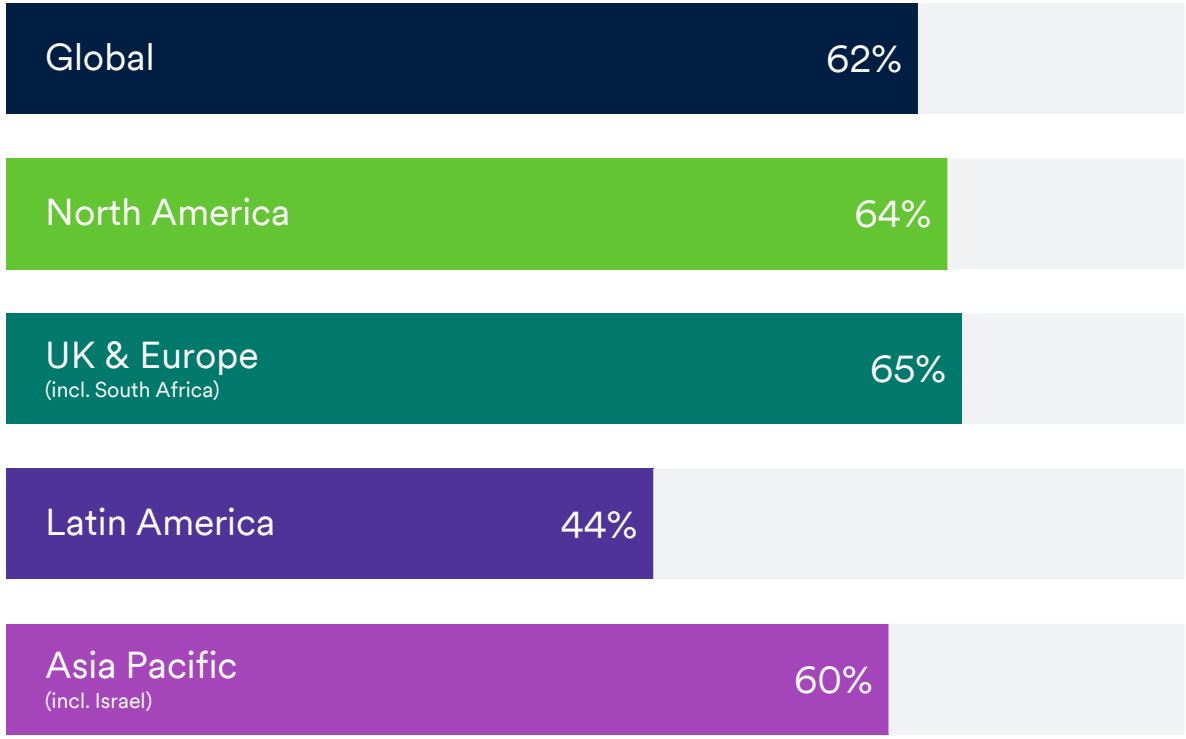
**Human capital management**
Ensuring workers and other stakeholders are supported and protected

**Inclusion and diversity**
Ensuring diverse and inclusive workforces

**Natural capital and biodiversity**
Identifying and managing material natural capital risks

Q. Investment managers and asset owners are often able to engage with and influence the behaviours of the companies that they invest in.

How important are the following to you?




Respondents rated answers on a scale from 1-5. % Important (4+5)

CLICK A THEME TO COMPARE GLOBAL & REGIONAL RESULTS

**Governance and oversight**
Transparency of voting and shareholder resolutions, particularly around climate and diversity issues

**Human rights**
Impact companies have on workers, communities and consumers

**Climate**
Climate action and transparency over climate

**Human capital management**
Ensuring workers and other stakeholders are supported and protected

**Inclusion and diversity**
Ensuring diverse and inclusive workforces

**Natural capital and biodiversity**
Identifying and managing material natural capital risks

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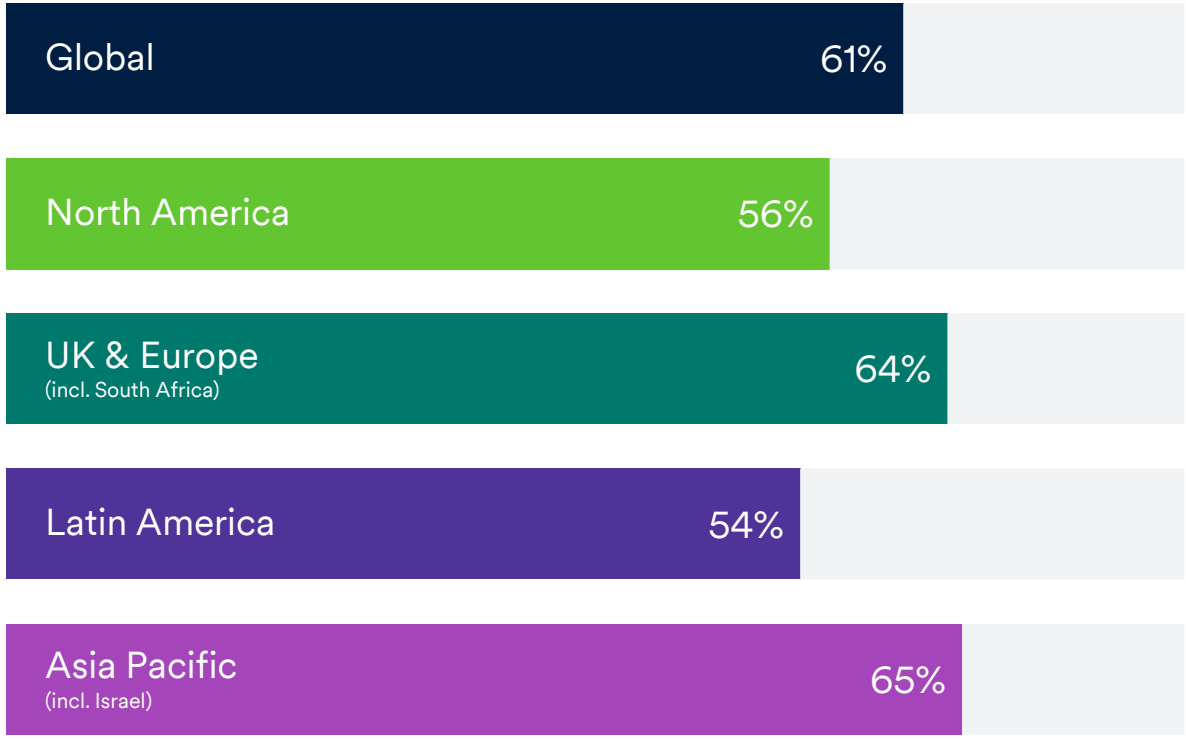


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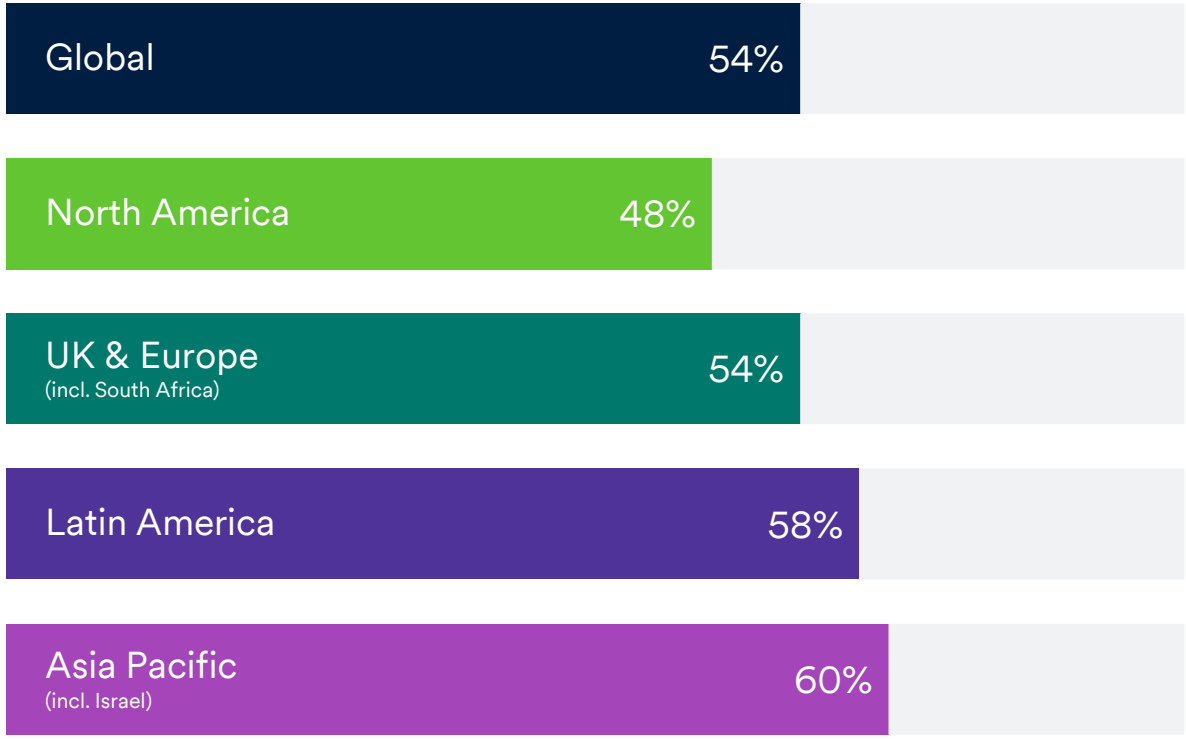


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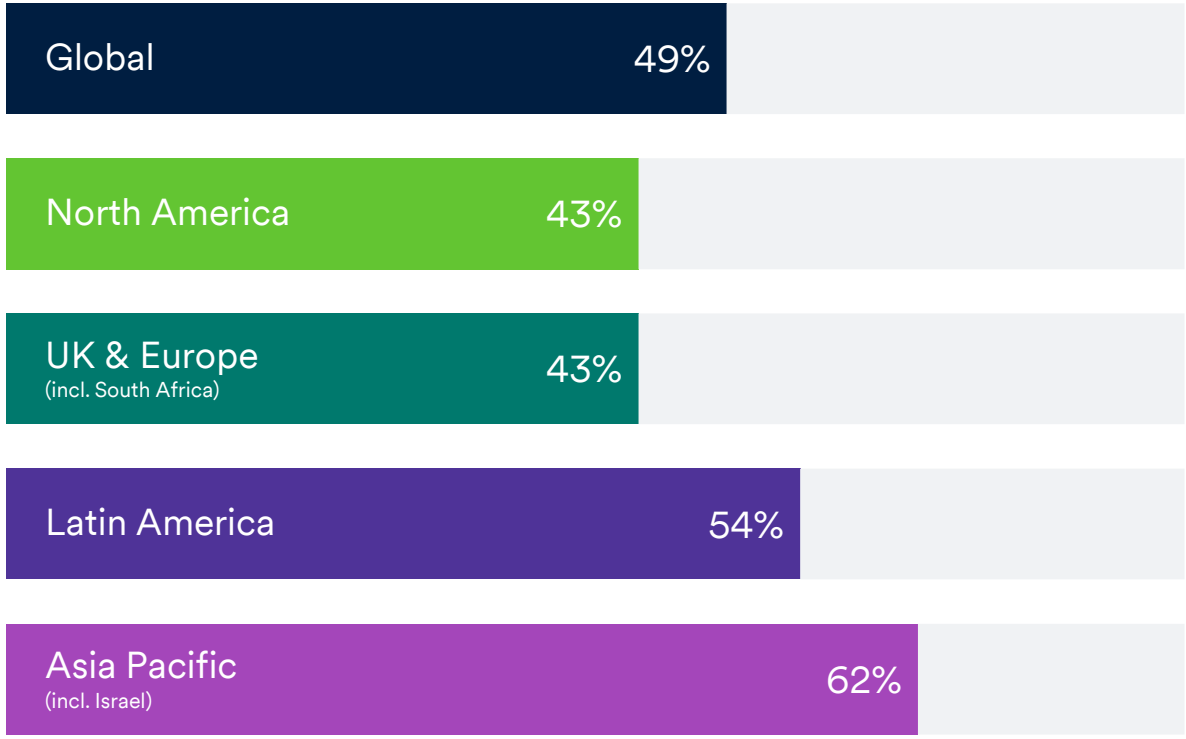


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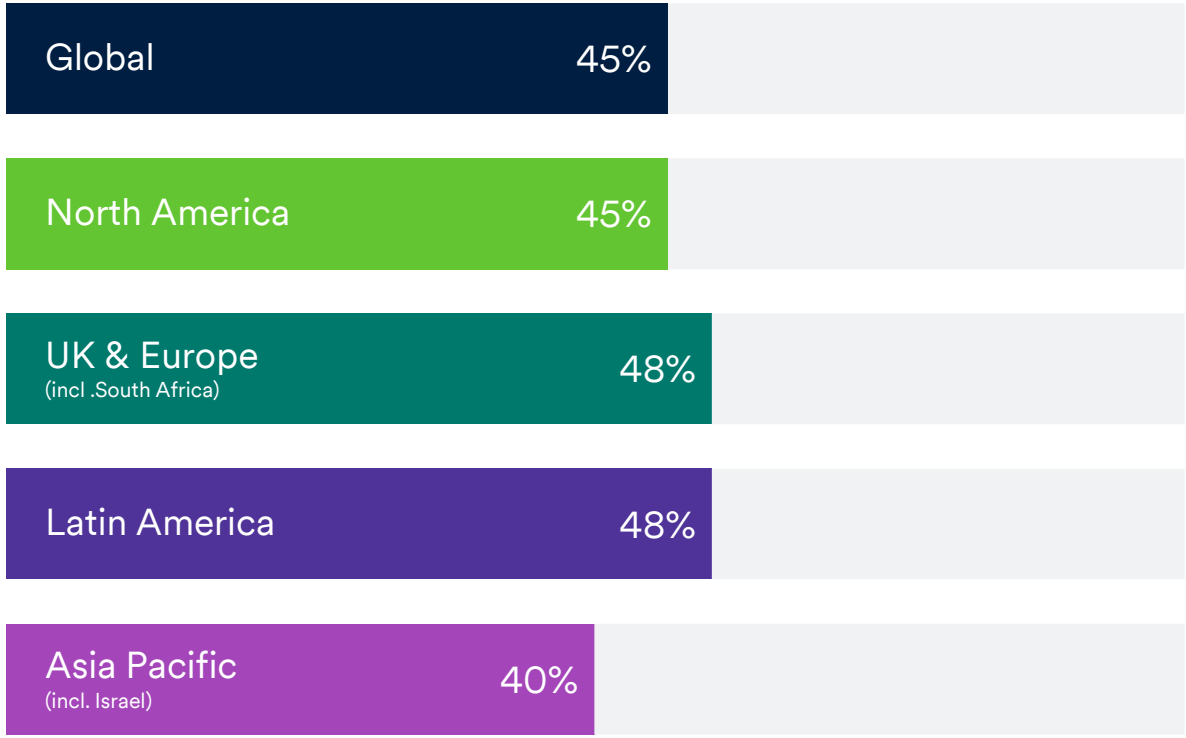


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# Evidence of real outcomes that make measurable improvements is a top priority for active ownership

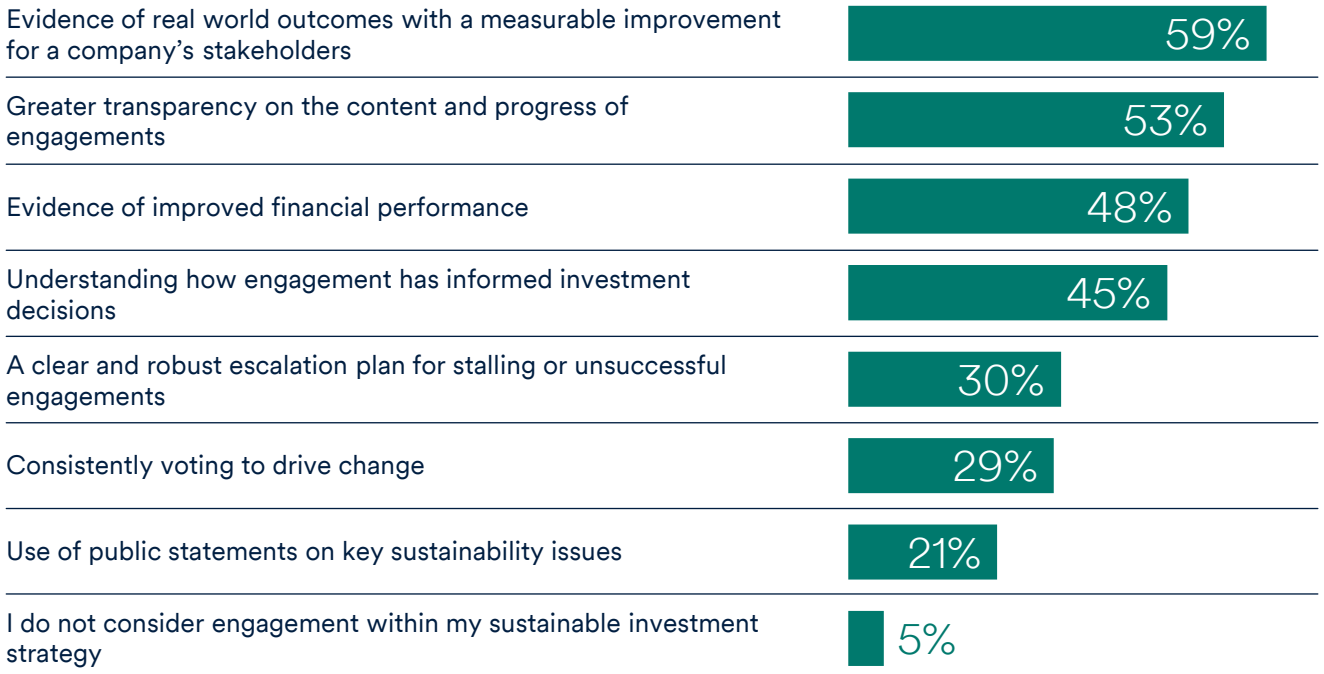
Being an active owner and willing to engage with companies on ESG issues is becoming more important for institutional investors and asset owners globally.

59% globally point to evidence of real world outcomes with a measurable improvement for a company's stakeholders as the most important feature. This is followed by greater transparency on the content and progress of engagements (53%) and evidence of improved financial performance (48%).

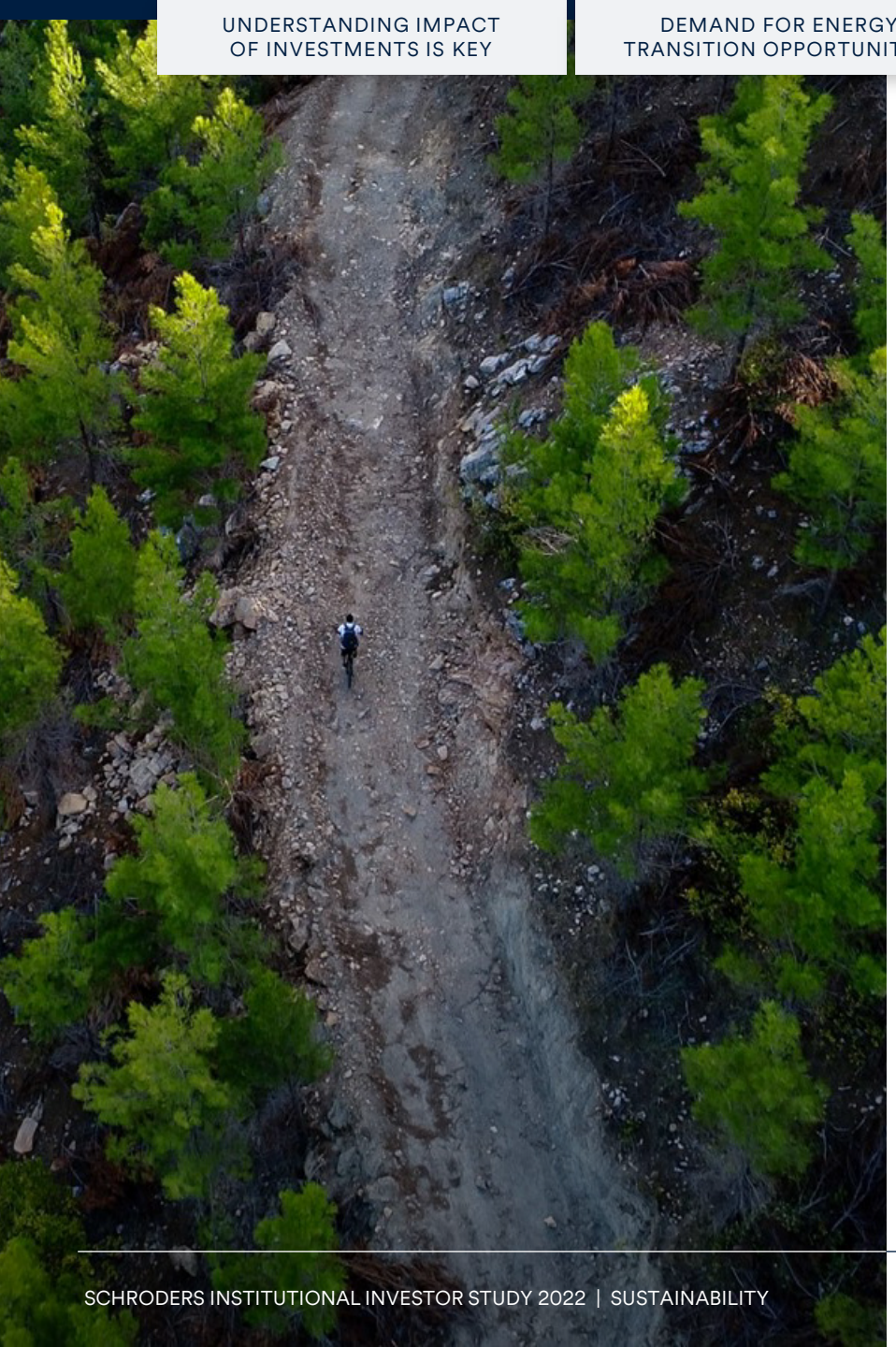
However, investors stand out on being prepared to act if engagement fails, with 30% saying that a clear and robust escalation plan for stalling or unsuccessful engagements is important to them.

The theme of transparency and evidencing sustainable investment is a theme throughout our Study, with greenwashing and a lack of comparison cited as the key challenges for investors looking to invest more sustainably – explore further on the next page.

Q. What features of an engagement strategy are most important to you?




% Multiple answers allowed

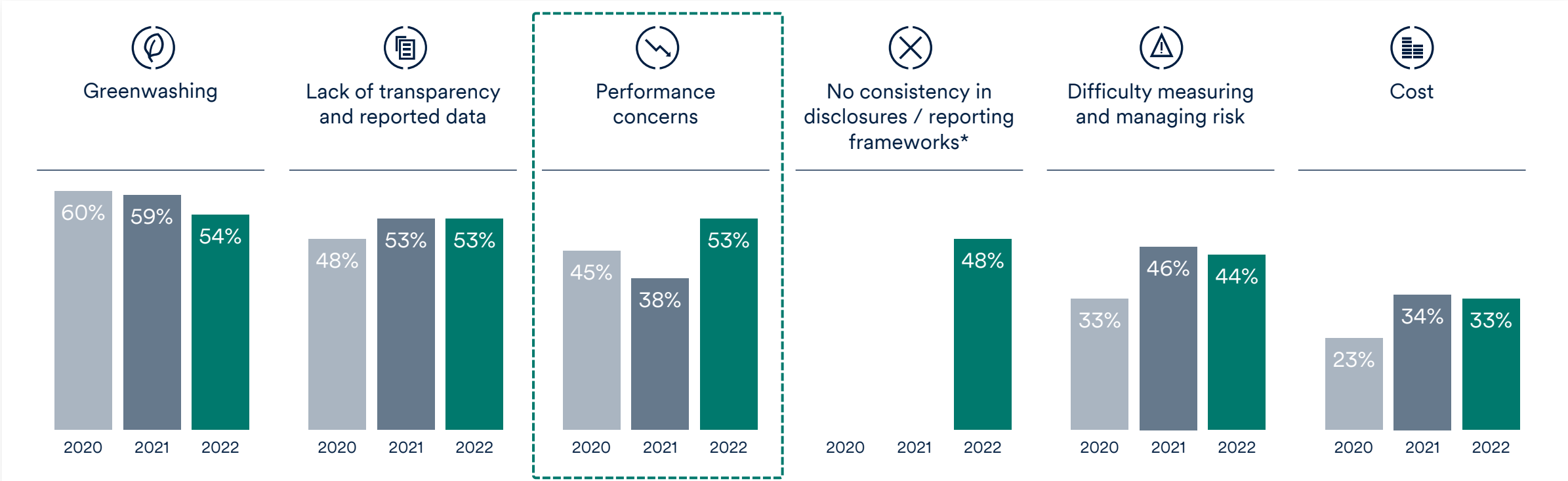


# Performance concerns and consistent data are key challenges

As sustainable investing continues to evolve and becomes more sophisticated, so do the challenges. Concern about greenwashing (54%) and the lack of transparency and data (53%) continue to be the main challenges, as seen over the last three years. Given the speed at which ESG has grown globally in recent years and the regulatory scrutiny that is now felt across all regions, we believe the lack of consistent standards and reporting amongst asset managers may be a key contributor to the 48% of respondents that selected this response. With an ever growing quantity of ESG data available, investors need further clarity and consistency from managers about the information they report.

After a consistent year-on-year decrease around performance concerns, this has now jumped back up to a major challenge (53% from 38% in 2021). This reflects performance of many sustainable strategies; after a few years of large growth-oriented stocks (which tend to be considered more sustainable by manager) leading market returns, the last 12 months has seen a reversal where energy prices have soared, benefitting oil majors and those companies typically seen as less sustainable.

## Q. Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments?

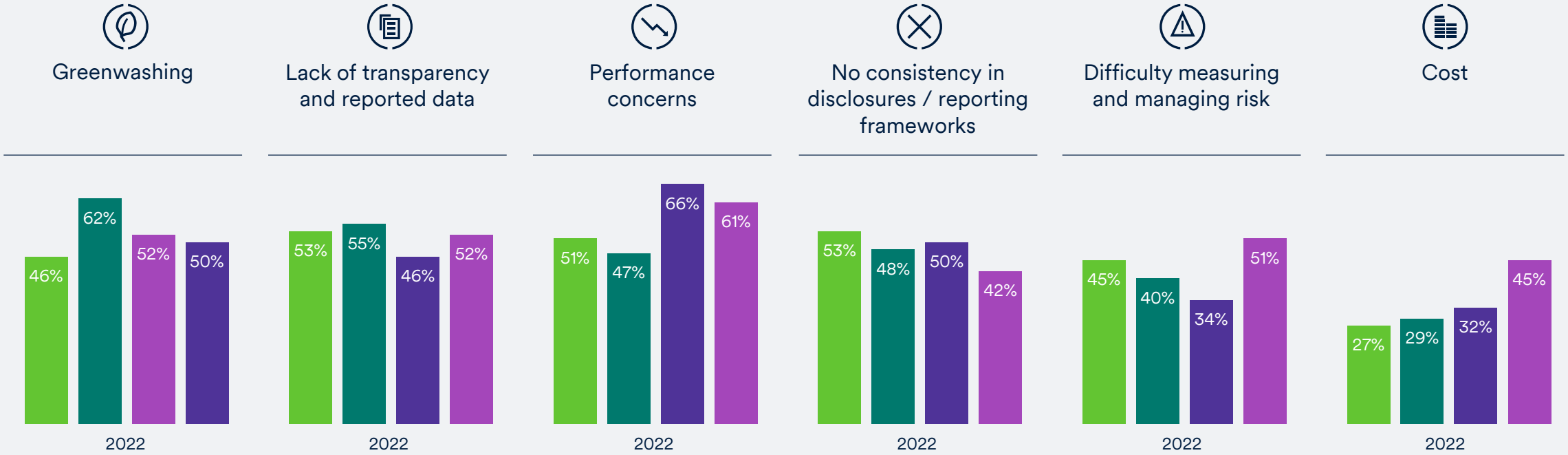



Click here to see the regional breakdown

% Multiple answers allowed. *This option was not asked in previous years.

IN FOCUS

Q. Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments?




% Multiple answers allowed.

# Consistent data and enhanced reporting is key for successful sustainable investing

Q. When investing sustainably, how important are the following to you?


Please rate on a scale of 1-5 where 1 = not important at all and 5 = Very important. % Important (4+5).
*These options were not asked in previous years.

With greenwashing cited as the greatest challenge for institutional investors globally, it is no surprise that consistent and comparable data points, along with enhanced reporting, came out as important factors when investing sustainably.

The evidence is clear that investors want to see more consistency in reporting across the asset management industry and more transparency. Across the globe, different markets have been developing new reporting and taxonomy policies in the hope of standardising terminology; though the confusion still lies as there is a lack of an internally accepted standard framework.

Evidence of improved financial performance (60%) and having full transparency on the impact of sustainable investments (55%) are also key.

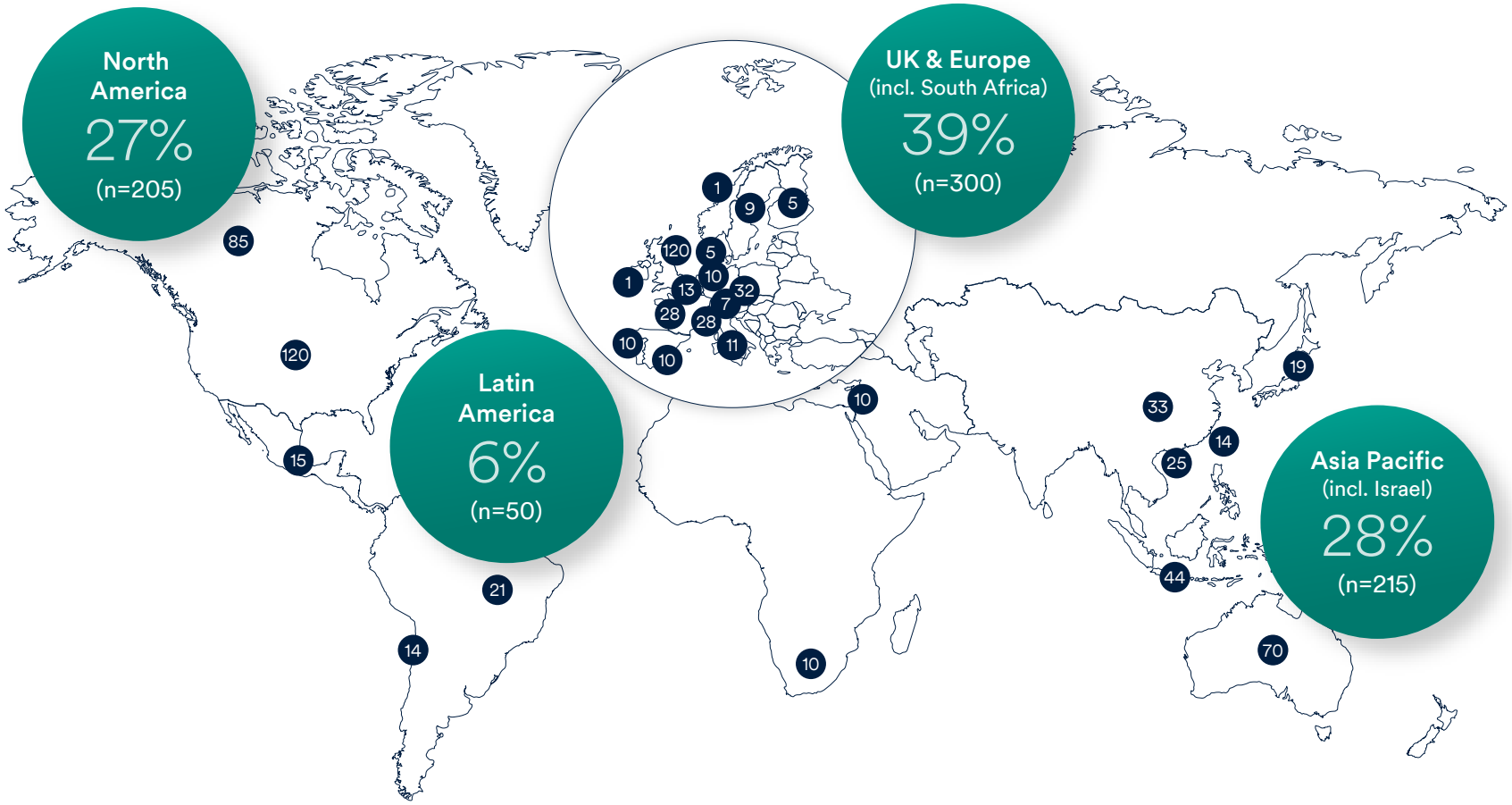
# About the Study

## Worldwide institutional respondents

**770**
institutional respondents

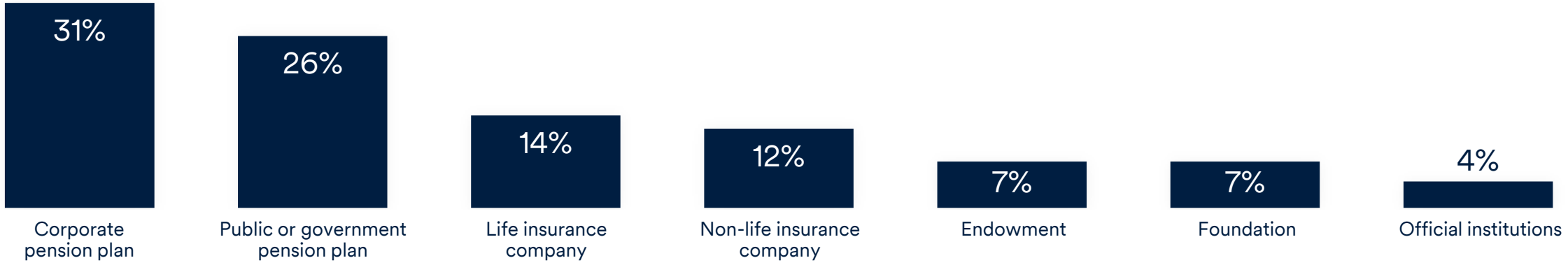
**28**
locations worldwide

**$27.5USD**
trillion in AUM

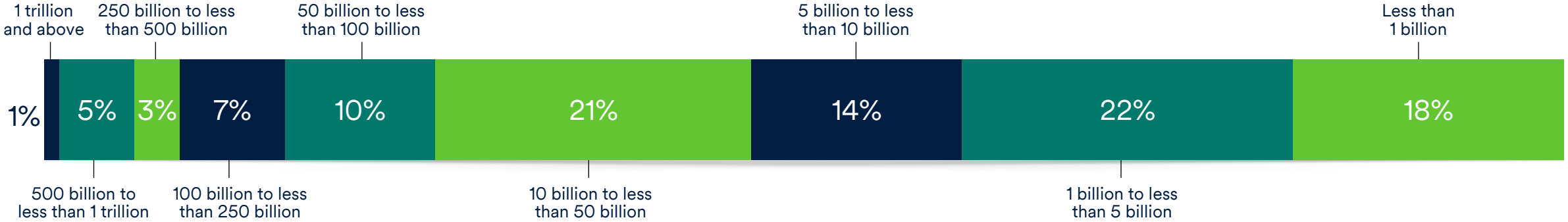


# About the Study

## Breakdown by institutional type




## Assets under management (US$)



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Schroders commissioned CoreData to conduct the sixth Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The respondents (770 globally ) represent a spectrum of institutions including corporate and public pension plans, insurance companies, official institutions, endowments and foundations, collectively responsible for US$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022.

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Sustainability – Institutional Investor Study 2022