Schroders

United Kingdom

Sustainability

Institutional Investor Study 2022

SCROLL TO EXPLORE

UK Institutional Results – An Executive Summary

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Head of Sustainability, UK

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This year's Institutional Investor Study reveals that UK pension funds and insurance companies are some of the most sophisticated in the world when it comes to sustainable investing. 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. Furthermore, being able to identify evidence of real world outcomes with a measurable improvement for a company's stakeholders is key for any engagement strategy. It seems that the next stage of the journey 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.

Given the continuing regulatory pipeline impacting on UK institutional investors, the requirement for enhanced reporting and transparency from asset managers, along with consistent and comparable data points, are of significant importance. This drive for consistency and transparency is highlighted as a key challenge for UK institutions, with more than half identifying this as critical.

We hope you enjoy reading this report on your peers' attitudes to sustainable investing. We will be exploring the Study in more detail at our Autumn Conference later this year, alongside the results from our private assets study to be launched in October. If you have any questions, or wish to discuss any of the findings and the implementation of sustainability in your portfolios, please do get in contact with your usual Schroders representative.

Key findings from UK institutional investors

Demand for energy transition opportunities

When asked what would encourage investors to further adopt sustainable investments, 68% highlighted new investment opportunities addressing the energy transition. This demand for thematic investment opportunities around decarbonisation highlights the climate-focus of UK investors.

The journey to net zero is underway

45% of UK investors have made a commitment to reach net zero by 2050, compared to 37% globally.

Making an impact through sustainable investments is key

For UK investors, the biggest driver for sustainable investing is a desire to positively impact society and the planet (62%).

Natural Capital & Biodiversity emerges as key engagement themes

Nearly half of UK respondents highlight natural capital as an important engagement theme for asset managers.

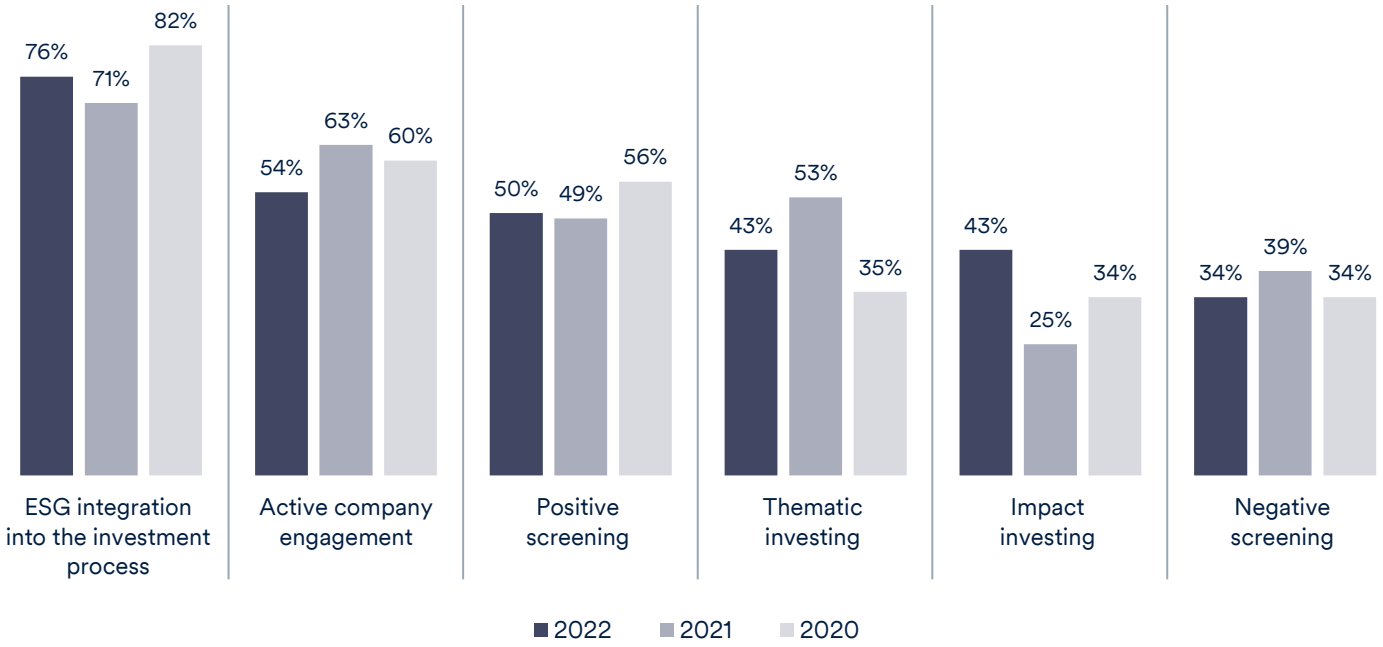
Understanding the impact of investments is on the rise for UK institutional investors

The widespread use of sustainable investing by UK institutional investors can be seen from the results of the Institutional Investor Study over the last four years.

When asked about their preferred approaches to sustainable investments, over the last 3 years, UK investors have highlighted their preference is ESG integration into the investment process. ESG integration is now core to the investment process for institutional.

This year, we have seen a marked increase of preference around impact investing (43% in 2022 vs 25% in 2021), investing with the objective of achieving environmental and social benefits alongside financial return. Negative screening, or exclusions, is now the least popular approach while half say positive screening, or investing in the 'best-in-class' in a sector, is their preferred approach. Overall, these results show that UK investors are gradually making their way across the spectrum of sustainable investment approaches, from the simplest, such as screening, to greater use of more complex approaches.

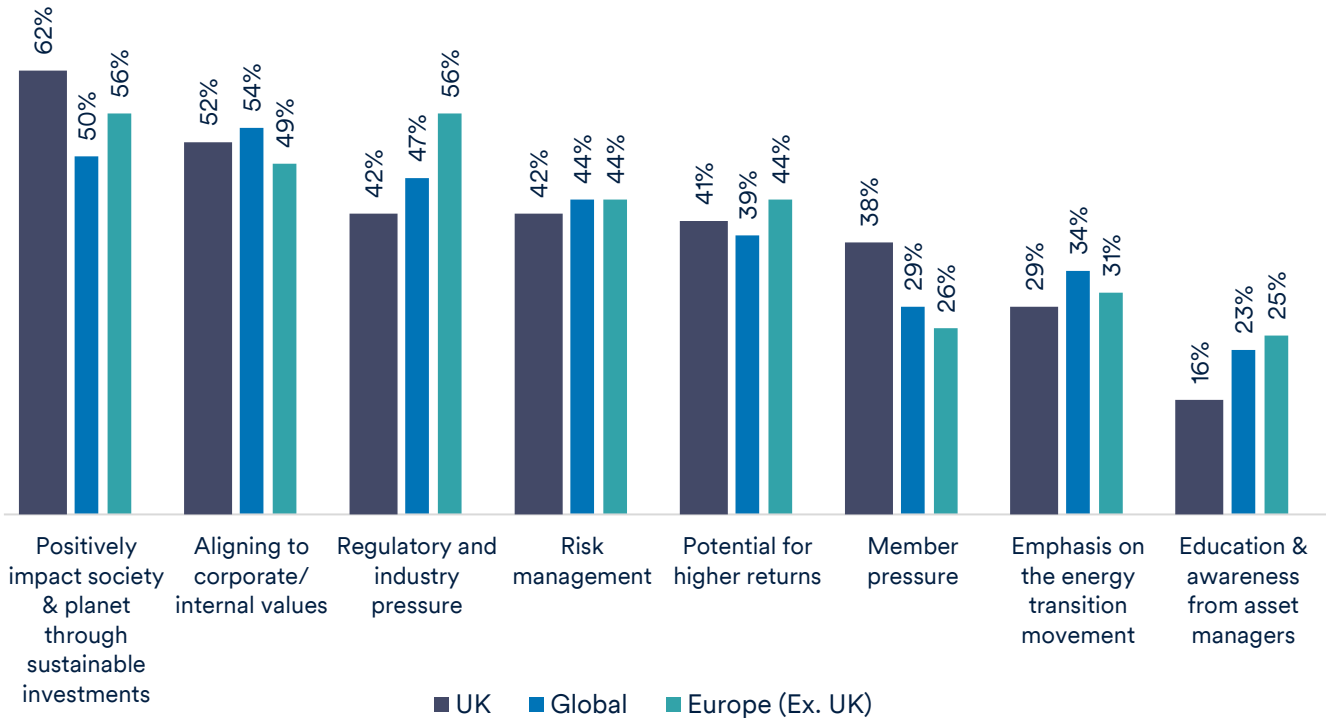
Q. What is your preferred approach to implementing sustainable investments?



UK respondents only. Respondents ranked approaches from 1-6. This graph showcases % Rank 1, 2, 3.

Desire to positively impact society and planet are key motivators to investing sustainably

Q. What is driving your sustainable investment focus?



For UK investors, the biggest driver for sustainable investing is a desire to positively impact society and the planet. This is ahead of aligning to corporate/internal values, regulatory and industry pressure and risk management. Interestingly, public or government pension funds are more likely to cite the potential for higher returns as a driver (63%) compared to other institutional types.

Compared to their peers around the world, UK investors share similar views on the main drivers for sustainable investing to their counterparts in Europe. Both regions place more emphasis on regulation and industry pressure as a driver for sustainable investing. This is unsurprising as several new regulations are now impacting European investors including the Sustainable Finance Disclosure Regulation (SFDR), Benchmark Regulation and the Taxonomy Regulation.

Member pressure is also a stronger driver in the UK than elsewhere (38% versus 29% globally). DC schemes in the UK are now around £500billion in size, and is forecast to top £1 trillion by the end of the decade. This is significant because DC members are more active in directing their savings to positive change, with much greater sensitivity to ESG. According to Willis Towers Watson there has been a “step change” in the importance of ESG with 50% of schemes likely to offer ESG as part of their default option in the short-term.

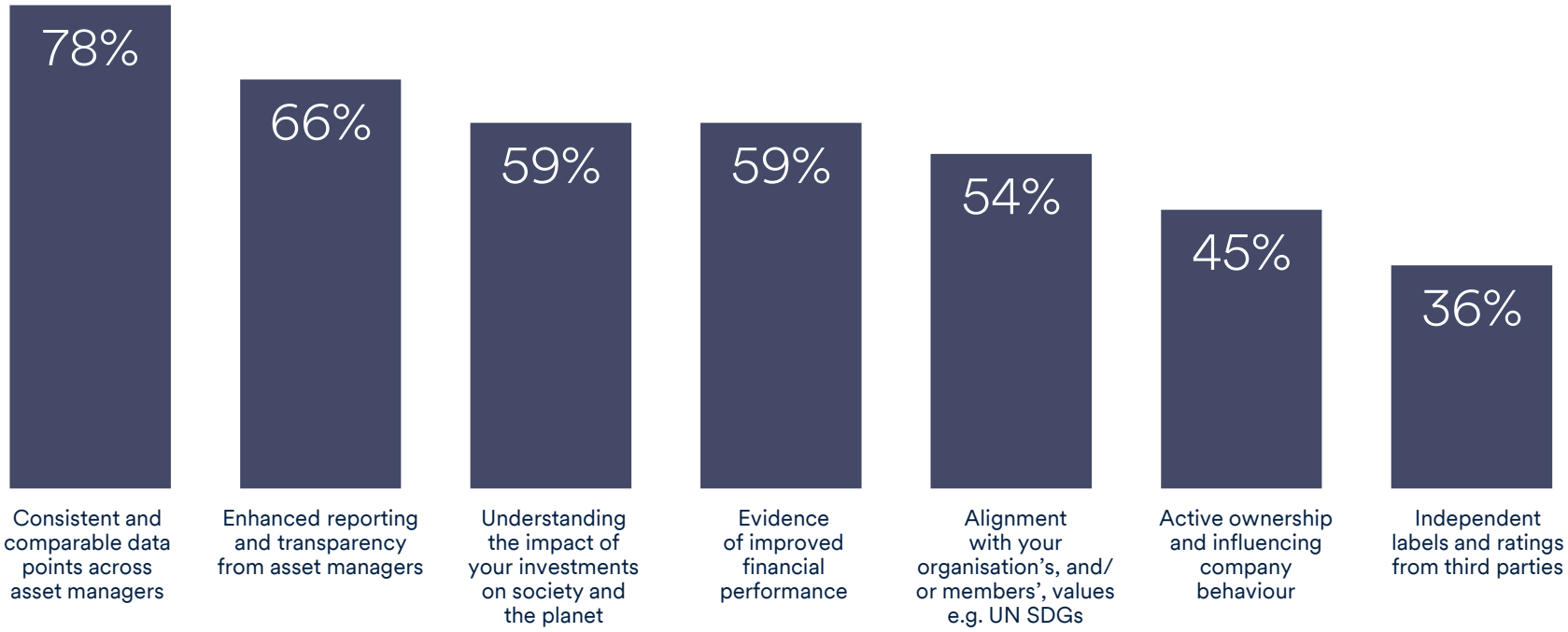
Making positive impact should not come at the expense of financial returns

Making an impact should not come by sacrificing returns though, according to UK investors.

When asked about important aspects of investing sustainably, 59% say evidence of improved financial performance is important to them when investing sustainably.

However the most important category for our respondents was to have more consistency and comparable data points across asset managers.

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



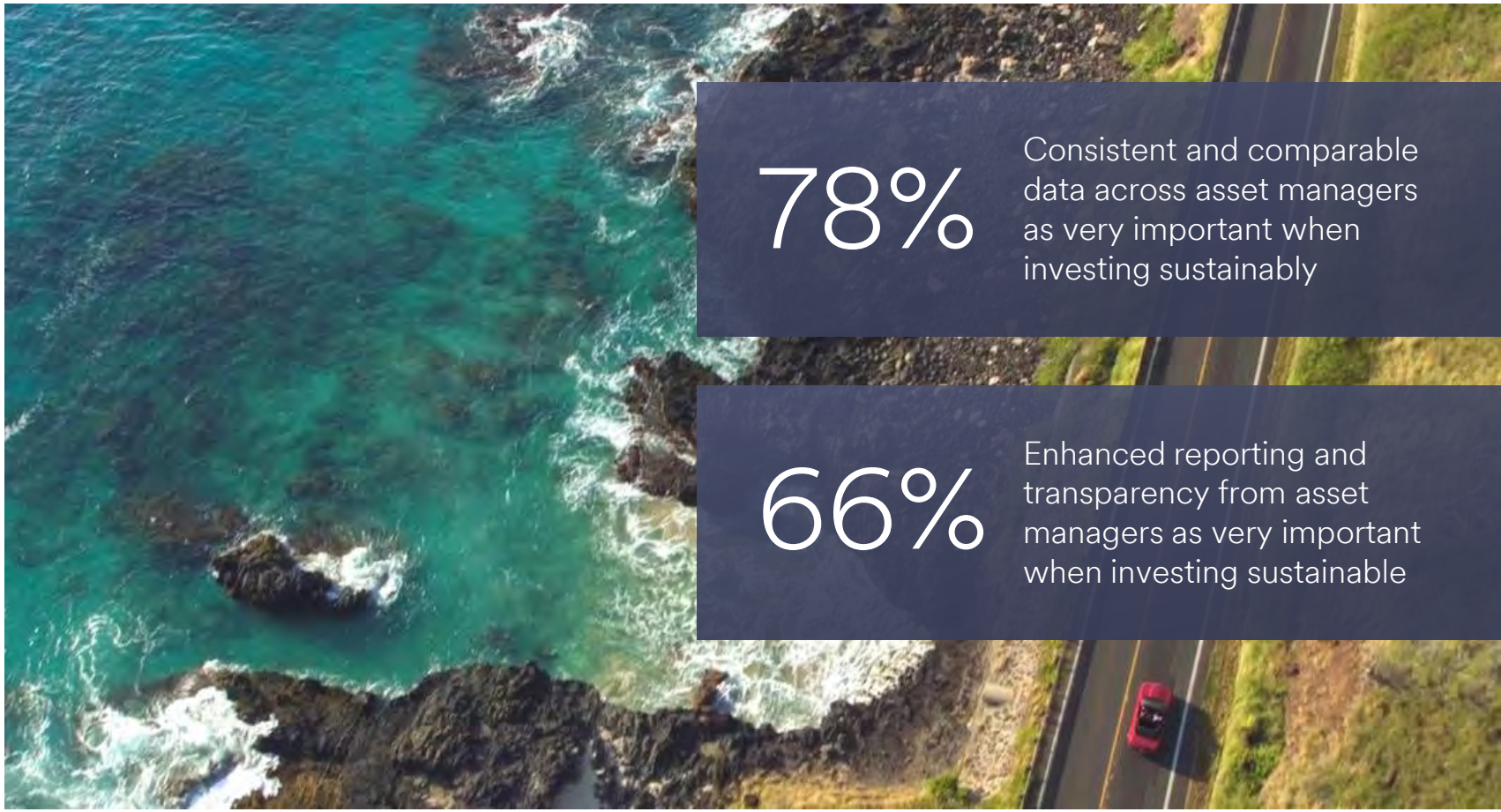
UK respondents only.

The need for consistency across the asset management industry is key

Over three-quarters (78%) of UK investors cite consistent and comparable data points across asset managers (vs. 72% globally) as very important when investing sustainably.

The evidence is clear that investors want to see not only more transparency from asset managers but also greater consistency and comparability in the information that the industry provides. Regulations like the Task Force on Climate-related Financial Disclosures (TCFD) and forthcoming Sustainability Disclosure Requirements (SDR) can help address this, but it's clear that achieving consistency in those disclosures is on top of UK investors' mind.

Evidence of improved financial performance (59%) and understanding the impact of their investments (59%) are of equal importance to UK institutions when investing sustainably.



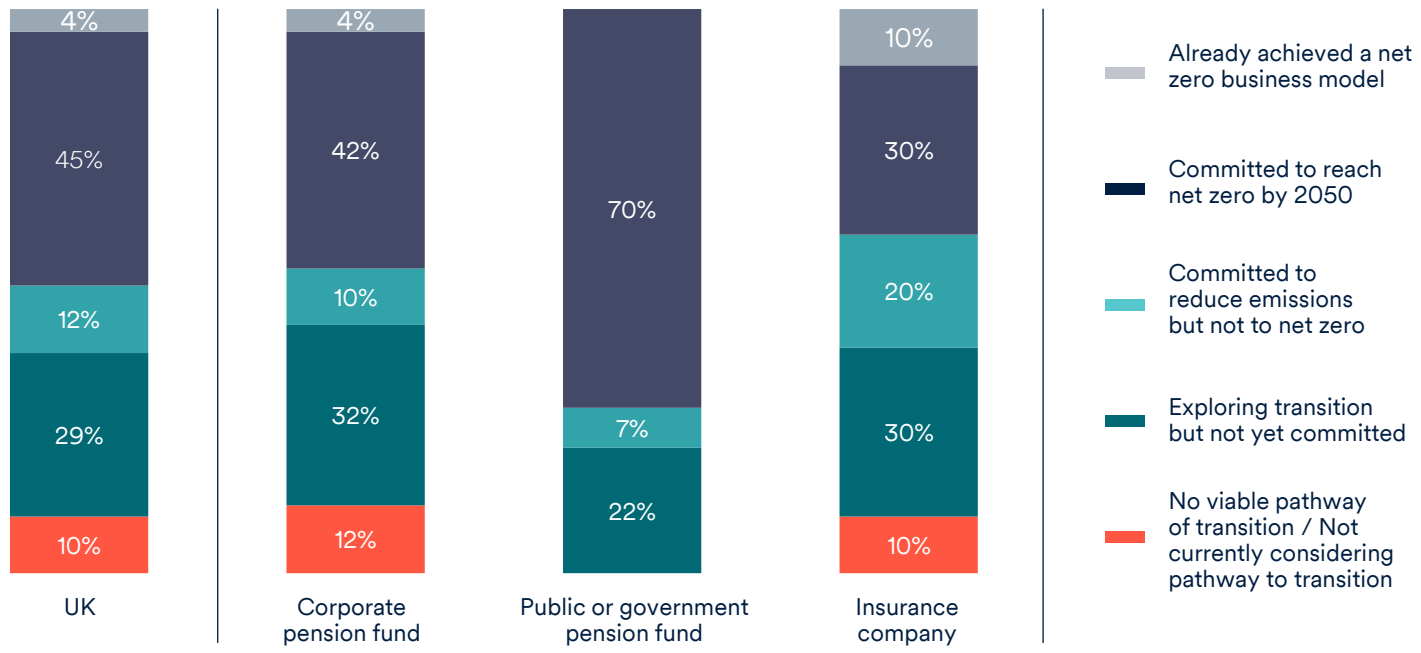
Commitment to net zero is strong amongst UK institutional investors

Following commitments from governments around the world which are intended to limit climate change and its impacts, many investors are now pledging to reduce the carbon emissions associated with their investment portfolios. The UK is among the leaders, with 45% of investors making a commitment to reach net zero by 2050, compared to 37% globally.

By institution, 70% of public or government pension funds are committed to reaching net zero by 2050, ahead of corporate pension funds (42%) and insurance companies. Almost a third (32%) of corporate pension funds are exploring whether they can make a commitment to net zero and 4% claim that they have already achieved a net zero business model.

45% UK institutional investors committed to reach net zero by 2050

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



UK respondents only. Data may not sum to 100% due to rounding

Commitment to net zero is strong amongst UK institutional investors

"Previously, I think that many companies were greenwashing, but there has been a real change in the last year or two and people are genuinely interested in the impact they are making.

I find that our investors are asking questions about net zero and our ambitions for achieving that, for example. That's great and how it should be. And there is political pressure on meeting targets now. Quite rightly, because unless there are specific targets laid out, I am sure that many would ignore the parameters that we have to work within.

UK public or government pension fund, investment team member (real estate), AUM US$50bn to 100bn

Transparency and frameworks key to help UK institutions on their net zero journey

"Understanding how an asset manager calculates the impact of a portfolio on the climate is useful.

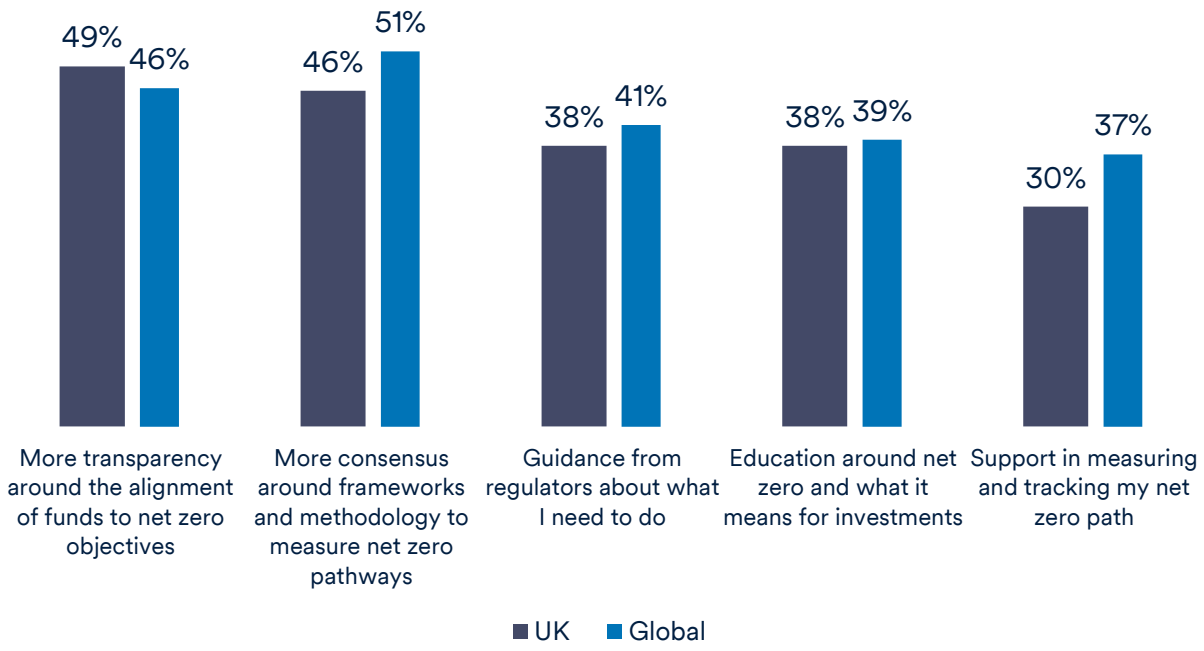
Because each asset manager might do it differently, and if you are going to report to your members, you need to know that there has been a consistent way of measuring this.

UK corporate pension fund, portfolio manager, AUM US$50bn to 100bn

The theme of transparency is seen again in this year's findings, this time in regard to making the net zero journey smoother. Almost half (49%) of UK investors call for more transparency around the alignment of funds to net zero objectives, while almost as many (46%) want to see more consensus around frameworks and methodology to measure net zero pathways.

The same percentage (46%) of corporate pension funds also want guidance from regulators on what they need to do, while 42% of corporate funds want education around net zero and what it means for investment.

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



Options 'None of the above' and 'Other' not included.

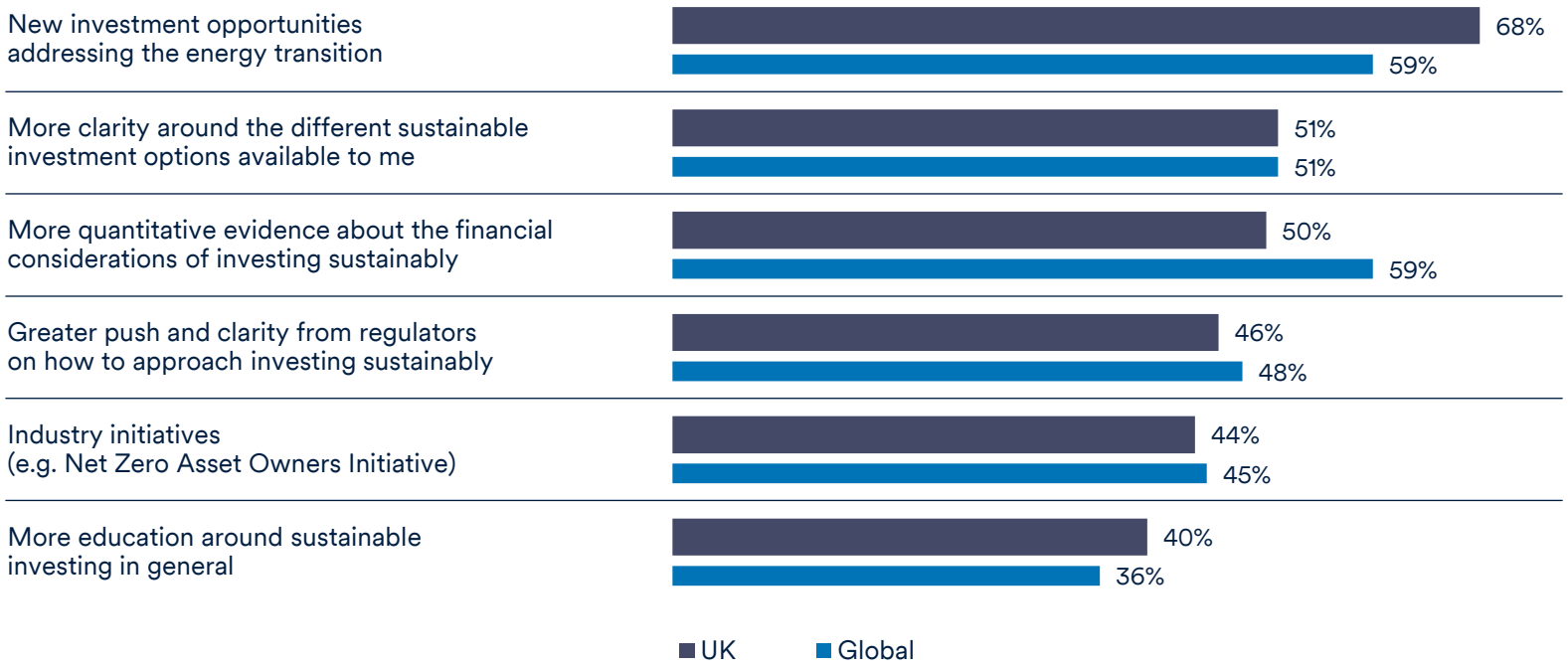
Demand for energy transition opportunities to increase further sustainability adoption

A significant finding on the determination of many UK investors to support a shift to a low-carbon economy is that over two-thirds (68%) agree that new investment opportunities addressing the energy transition would encourage them to invest more in sustainable investments, ahead of their peers in other regions (59% globally). This result is consistent for all sizes of UK investor and particularly high for public or government pension funds (85%).

68%

UK institutional investors would be encouraged by new investment opportunities addressing the energy transition

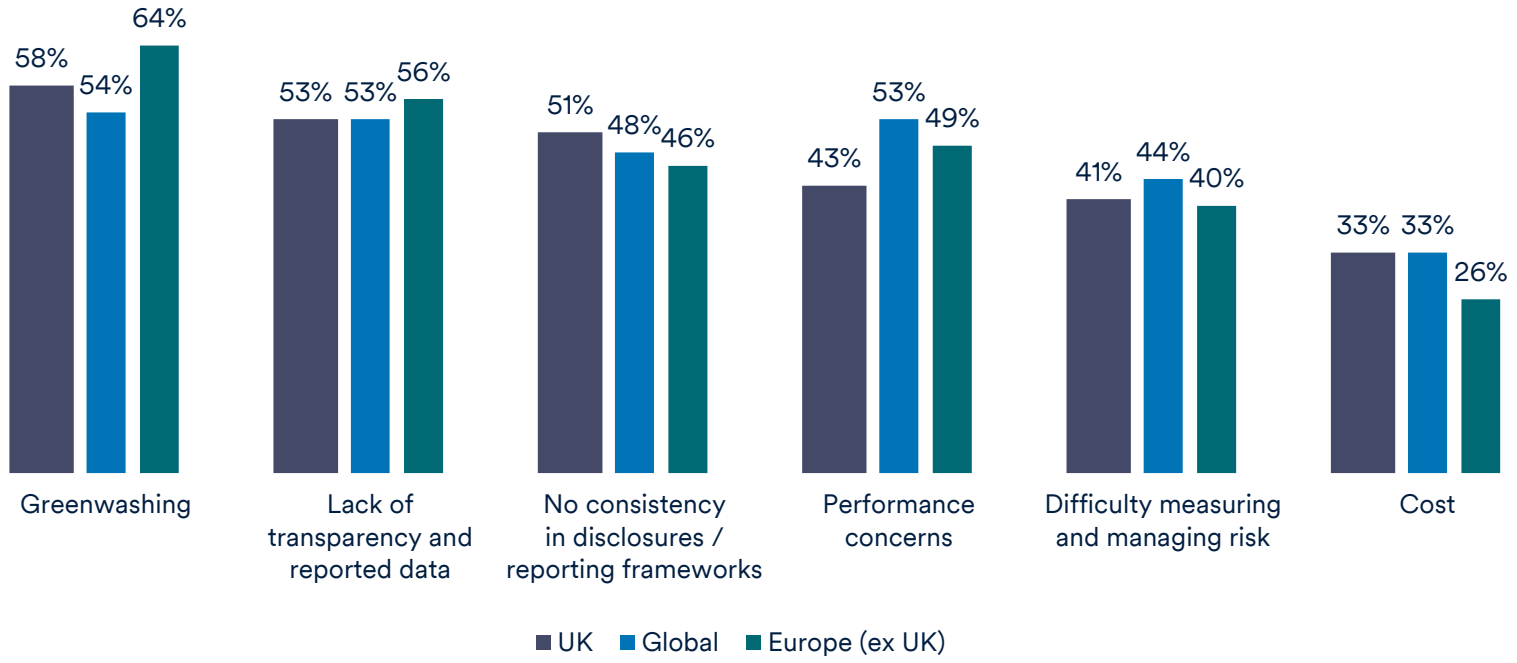
Q. What would encourage you to increase further sustainability adoption?



Option 'Other' not included.

Greenwashing and lack of reported data are key challenges faced by UK institutions

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



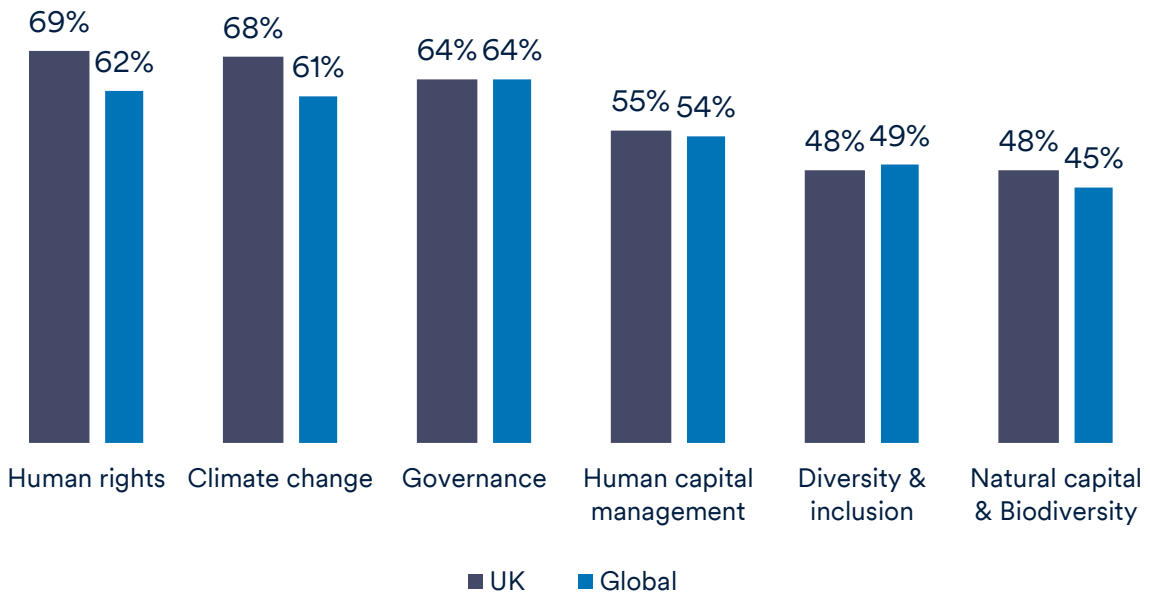
UK respondents only. % Multiple answers allowed.

Greenwashing is seen as the biggest challenge of sustainable investing (58%). The point around data is raised again as the same proportion of investors in the UK (53%) as globally, see the lack of transparency and reported data as a challenge. Just over half of UK investors (51%) see a lack of consistency in disclosures and reporting frameworks as a challenge, compared to slightly fewer, 48%, globally. On the other hand, UK investors are slightly less inclined to see difficulty in managing and measuring risk as a challenge than their global peers.

Real world outcomes highlighted as integral for active ownership with human rights and climate being key factors

Human rights, climate change and governance are important engagement topics for investors globally and in the UK. 68% see climate change (61% globally) and human rights (69% versus 62% globally) as important topics for asset owners and asset managers for engagement with companies, while nearly two-thirds of investors (64%) both globally and in the UK see governance as an important engagement topic.

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?



> Three or four years ago, we were a lot more focussed on governance, but now, we are very heavily focused on climate.
>
> We run scenarios on what happens to our portfolios if there is a one or two degree increase in temperate by 2030 or 2040. It is very important.

UK corporate pension fund, portfolio manager, AUM US$50bn to 100bn

Natural capital & biodiversity emerges as an engagement topic, in line with net zero commitments

"Biodiversity loss is another important issue. Something we have been discussing it recently, but we haven't done it yet, is investing in woodland, buying land backing woods to preserve it. That would be a wonderful thing. On a smaller level, for example, we have bees in the roofs of our shopping centres, as well as natural meadows on green roofs.

UK public or government pension fund, investment team member (real estate), AUM 50bn to 100bn (US$)

Nearly 50% of UK investors highlight natural capital & biodiversity as a top engagement topic for asset managers. This is the first year we included natural capital as an option; the fact that 48% of respondents already believe this is a key area to be engaging on highlights how quickly this topic is rising up in UK investors' agendas. This is unsurprising as natural capital and biodiversity can help investors meet two key goals as identified in this year's Study: to help them on their net zero commitments, but also to make a positive impact to both people and planet.

About the Study

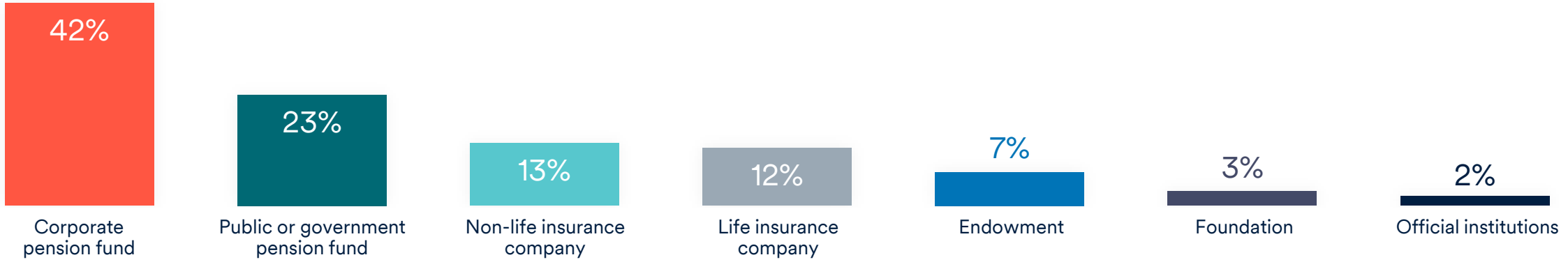
Schroders annual Institutional Investor Study analyses the investment perspectives of 770 global institutional investors on the investment landscape, sustainability and private assets. 120 respondents were from the UK.

The respondents represent a spectrum of institutions, including corporate and public pension funds, 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.

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 findings with commentary and insights from Schroders experts.

About the Study – UK respondents

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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