Index Industry Association 2023 ESG survey

Executive Summary

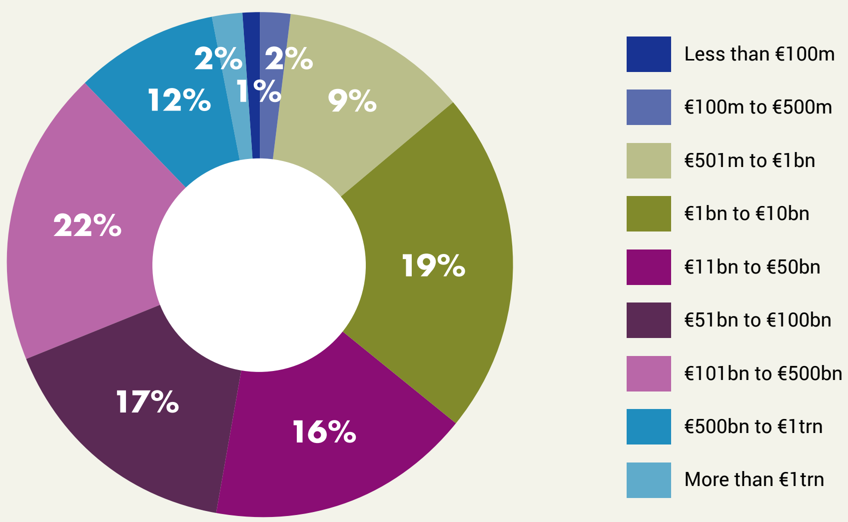
INTRODUCTION

Since 2021 the Index Industry Association (IIA) has been assessing ESG investing trends through an annual survey of **300 CFOs, CIOs and portfolio managers across France, Germany, the UK, and the US**. The 2023 survey, the third in a row, offers a unique glimpse into what this influential cohort is thinking about ESG investing.

SURVEY METHODOLOGY

As before, this year's survey was carried out by Opinium, with fieldwork taking place in April and May 2023. The sample consisted of **80 CFOs, CIOs, and portfolio managers from each of the UK and the US, and 70 from each of Germany and France**. The survey covers some of the largest firms in the industry: in the case of respondents from French and German companies, 22% had assets-under-management (AUM) between Euro 101bn to Euro 500bn, while 14% had an AUM of Euro 501bn or more. By role, just under half **(49%) of respondents were portfolio managers or equivalent, with 29% being Chief Financial Officers (CFO) and 23% Chief Investment Officers (CIO)**.

Figure 1: Distribution of French and German companies by size of assets-under-management (AUM), 2023

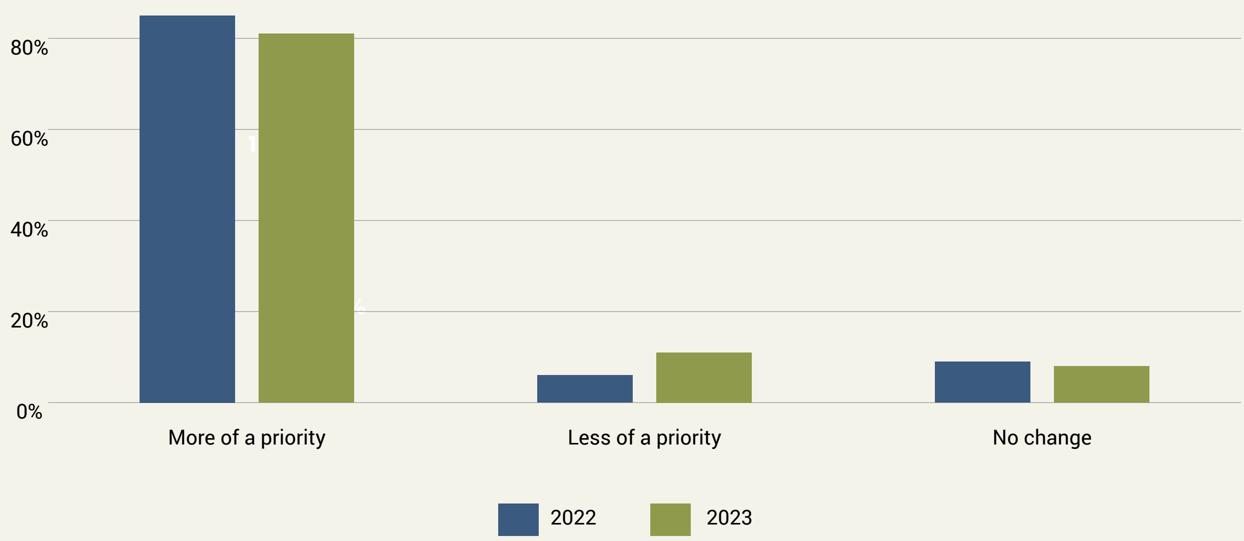


Base: French & German respondents (n140)

MAIN FINDINGS

- **Fund managers continue to see growth in the face of political and geopolitical headwinds:** Despite significant economic volatility and political frictions, asset managers in France, Germany, the UK and US are ramping up their ESG investments. Eight in ten (81%) of asset managers say ESG has become more (54%) or much more (28%) of a priority to their investment strategy over the past 12 months, a similar proportion to our 2022 survey. ESG investing remains on course to reach almost half of portfolios in 2-3 years' time, and to reach 63% in ten years.

Figure 2: Extent to which ESG has become more or less of a priority to companies' overall investment strategy over the past 12 months, 2022 and 2023



Base: All respondents 2022 (n300), All respondents 2023 (n300)

- **US asset managers pushing ahead:** : Despite a series of political headwinds, ESG still enjoys commanding support among US fund managers, with 88% (the joint highest region) saying it has become more of a priority over the last year.

- **Tools and metrics much improved, but gaps remain:** Asset managers see big improvement in ESG tools and metrics, with 85%-87% viewing these as fairly or highly effective, compared with only 66%-69% in 2021. However, gaps remain, especially around lack of data standardization (30%), insufficient quantitative data (29%), and lack of agreed ratings and methods by providers (24%).

- **Emerging technologies promise to be a game changer:** Asset managers see emerging technologies—analytics, Internet of Things, blockchain, AI and machine learning, and others—offering unprecedented opportunities to close the data gap, improving the timing, depth and predictive content of ESG data and metrics. US asset managers are especially attuned to the potential ESG applications of AI and machine learning, with almost half (48%) expecting it to have the biggest impact on ESG measurement and reporting over the next two years.

- **ESG asset class expansion continues, driven by significant growth in commodities:** Commodities ESG investing has burst out of the blocks, with the proportion of companies implementing ESG criteria for commodities rising from 37% in 2021, to 47% in 2022, and to a dramatic 62% in 2023. Commodities ESG investing is being propelled by asset-manager concern for ESG factors (31%), reputation or regulatory risk (27%), and high energy prices (26%).

- **"E" is evolving beyond just carbon:** Asset managers are now taking an expansive view of environmental ESG issues, which are no longer solely about climate change and carbon emissions. Asset managers highlight natural resource usage or depletion (42%), sustainable supply chains (39%), resilience of physical assets to climate change (38%) and greenhouse gas / carbon emissions (32%) as being most important to their ESG investing strategies.

- **Widening lens on social factors:** Sixty-two percent of asset managers incorporate societal factors as a core part of all or part of most portfolios, with US managers (74%) more likely to do so than those in other regions. Big societal issues include the impact of supply chains (38%), safety and product quality (37%), diversity and inclusion (34%), and data protection and privacy (32%). However, the wide-ranging and intangible nature of S factors creates challenges for asset managers: over half (54%) find it difficult to evaluate the social and governance performance of companies, and a similar proportion (56%) say they are finding it difficult to keep up with changing societal views and expectations around ESG.

- **Governance is getting attention:** Asset managers are taking notice of corporate governance: what firms do, how they do it, and with whom. In their ESG investment decisions, they are paying special attention to fair business practices (41%), accounting transparency (39%), and diversity among boards and leadership (35%), among a host of other factors.

- **Policies have consequences:** Asset managers are pivoting rapidly in response to both international and domestic policy shifts: 73% say that the UN 2022 Global Biodiversity agreement will have a major or some impact on their ESG investing strategy; 88% of US managers highlight the impact of new SEC proposals for greater ESG disclosures; two thirds of EU managers expect the EU Sustainable Finance Disclosure Regulation (SFDR) to have a significant impact on their investment strategy. Over half of EU companies have already reclassified funds between Article 8 ("light-green funds") and Article 9 ("dark-green funds") in response to SFDR regulation.

iia

index INDUSTRY ASSOCIATION