Index Industry Association 2023 ESG survey
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INTRODUCTION

Recent years have been a rollercoaster ride for many aspects of environmental, social and governance (ESG) investing, with investors buffeted by economic uncertainty, geopolitical upheavals, and a raft of policy shifts on both sides of the Atlantic. During this time ESG flows have touched historic highs, but have also suffered periodic setbacks and reversals. Since 2021 the Index Industry Association has been testing the pulse of asset managers on ESG 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.

Our 2023 survey also starts to address some of the many unanswered questions around the future of ESG investing. How are asset managers seeing new and emerging dimensions of ESG investing? Is the ESG data gap being narrowed and which gaps still need to be addressed? How will the shifting policy sands and political rhetoric both domestically and internationally influence the views and actions of asset managers? Will emerging technologies such as AI and blockchain be a game changer for ESG measurement and investing, or will they introduce new challenges of their own?

As before, this year’s survey was carried out by Opinium, with fieldwork taking place in March and April 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). The France sample had a relatively higher proportion of portfolio managers (63%), while the Germany sample had a somewhat higher representation of CFOs (39%).
**Figure 1:** Distribution of French and German companies by size of assets-under-management (AUM), 2023

- Less than €100m: 2%
- €100m to €500m: 2%
- €501m to €1bn: 12%
- €1bn to €10bn: 19%
- €11bn to €50bn: 17%
- €51bn to €100bn: 16%
- €101bn to €500bn: 9%
- More than €500bn: 1%
- More than €1trn: 2%

(Base: French & German respondents (n=140))

**Figure 2:** Distribution of survey respondents by role, 2023

- Portfolio manager: 49%
- CFO: 23%
- CIO: 29%

(Base: All respondents (n=300))
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.

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—a 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.
ESG CONTINUES TO GROW IN THE FACE OF POLITICAL AND GEOPOLITICAL HEADWINDS

The last year has been a testing period for ESG investing, beset by economic turbulence, geopolitical instability and, in some quarters, political skepticism. According to Morningstar data, global sustainability funds net inflows slumped in the middle quarters of 2022, before recovering to USD 29bn in the first quarter of 2023. Global sustainability fund assets stood at USD 2.74trn in the first quarter of 2023, just off the USD 3trn highpoint recorded at the end of 2021. There were, however, marked regional differences: Europe sustainability fund flows grew by USD 32.3bn in the first quarter of 2023, while US flows contracted by USD $5.2 bn.¹

Yet our 2023 survey indicates that asset managers’ demand for ESG continues despite these turbulent times. Four fifths (81%) of asset managers say ESG has become more (54%) or much more (28%) of a priority to their overall investment strategy over the past 12 months. The growing prioritization of ESG was a common theme across regions, although somewhat weaker in Germany, where 67% indicated ESG to be of growing priority, compared with 21% who said it had become less of a priority. Despite the ongoing political debate in the US, ESG still commands overwhelming support among US asset managers, with 88% (the joint highest region with the UK) saying that it has become more of a priority. One US CIO remarked: “I think there will be an increase in the importance of ESG over the next five years as the effects of climate change, societal upheaval, and poor corporate governance become more apparent and affect returns.” A US portfolio manager attributed renewed ESG buoyancy to wider forces at play: “Over the next five years, ESG investing is likely to become increasingly mainstream and this is due to a combination of technological developments, regulatory changes, and shifts in client demands.”

While the relative prioritization of ESG was generally high across funds of different sizes, the very largest funds (USD 101bn or more) were somewhat less likely to say that it had increased in priority (65% compared with 86% of firms in the USD 51bn to USD 100bn category), although this may simply reflect the already high degree of ESG integration for these companies.

¹ Morningstar, April 25 2023, Global Sustainable Fund Flows: Q1 2023 in Review.
How is this renewed momentum likely to translate into ESG portfolio investment in the future? Using our three years of survey data, Figure 4 plots the expectation curve showing investors’ estimates of the future proportion of ESG elements in their portfolios at periods of 12 months, 2-3 years, 5 five years, and 10 years ahead. In 2021 asset managers expected ESG to account for 26.5% of portfolio assets by the following year, rising to 34.7% in 2025, 43.1% by 2026, and 52% by 2031 (shown by the blue line). In 2022, the ESG expectations curve shifted up significantly (as shown by the orange line), with asset managers forecasting ESG elements to reach 63.9% by 2032. In the case of our 2023 survey, medium-term expectations for ESG portfolios (as shown by the grey line) have slightly dipped compared to 2022 expectations—undoubtedly reflecting recent turbulence in ESG markets—but nevertheless retain a strong upward trajectory with the proportion of ESG elements in portfolios reaching 62.6% by 2033.
Note: Respondents were asked in the 2021, 2022, and 2023 surveys to estimate the proportion of portfolio assets that would contain ESG elements in one year’s time, 2-3 years ahead, 5 years ahead, and in 10 years.
TOOLS AND METRICS: MUCH BETTER, BUT GAPS REMAIN

The vast majority (85%-87%) of asset managers see ESG tools and metrics as fairly or highly effective, but gaps remain. While perceived effectiveness dropped back slightly compared to 2022, this year’s results represent a major improvement on 2021, when only 66%-69% of asset managers saw these tools and metrics as effective.

Within this overall picture of improvement, environmental impact tracking tools, metrics and services were more likely to be ranked as fairly effective (58%) than highly effective (27%). In comparison, over two in five ranked social sustainability and corporate governance tools as highly effective (44% for each). While the reason for this difference is not entirely clear, it may simply reflect greater familiarity with environmental tools, or possibly an expectation that such tools should be more advanced given the generally more straightforward nature of environmental issues compared with those in the social and governance arenas.

While the ESG data vacuum identified in our 2021 report may be diminishing, it has not gone away and significant challenges still remain. Amongst the biggest challenges, lack of data standardization across markets (30%), insufficient quantitative data (29%), and a lack of agreed ratings and methods by providers (24%) continue to frustrate the search for more accurate, relevant and timely measurement (Figure 5). Notably, these specific data challenges have not significantly diminished since our 2022 survey, suggesting that many aspects of measurement remain stubbornly resistant to improvement.

**Figure 5: Biggest challenges to ESG implementation for asset and fund managers, 2023**

- Need ESG in more asset classes
- Lack of sector data standardization
- Lack of quantitative data
- Insufficient corporate ESG disclosures
- Lack of timely company measurement
- Lack of management buy-in
- Lack of agreed ratings and methods
- Need more choices of index vehicles
- Lack of regulatory certainty
- Lack of client demand
- Lack of transparency

Base: All respondents 2023 (n=300)
Lack of transparency is a recurring theme around ESG metrics, but can cover a multitude of different issues—methodology, data sources, etc.—as well as many different players in the ESG data supply chain—companies, ratings agencies, indexes, third-party data providers, and so on. The evidence indicates that transparency has not improved since 2021, when 25% of asset managers highlighted insufficient public corporate disclosures of ESG activities as a major challenge to ESG implementation, and 18% pointed to more general issues of methodological transparency as a major challenge.

To provide a more granular view of transparency, our 2023 survey for the first time asked asset managers who indicated lack of transparency as a challenge to pinpoint the sources of such concerns (Figure 6). The answers vary to some extent depending on the stage of ESG metric development.

For ESG definition and scope, asset managers were most likely to identify ratings agencies as the source of inadequacies (39%), although they saw issues generally across the board. For measurement methods, company data collection and Index providers were identified as potential sources of lack of transparency, whereas for weightings attached to models, ratings agencies and company data collection were most frequently mentioned. However, to put this in context, only 22% of asset managers identified lack of transparency as a major challenge, and data transparency issues were generally seen as having a fairly broad provenance across different sources.

### Figure 6: Areas where inadequacies in methodological transparency come from, 2023

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<th>ESG definitions and scope</th>
<th>Data sources and coverage</th>
<th>Measurement methods</th>
<th>Weightings attached to models</th>
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<tr>
<td>Ratings Agencies</td>
<td>39%</td>
<td>35%</td>
<td>33%</td>
<td>44%</td>
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<tr>
<td>Index Providers</td>
<td>33%</td>
<td>33%</td>
<td>35%</td>
<td>27%</td>
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<tr>
<td>Fund Management</td>
<td>33%</td>
<td>32%</td>
<td>29%</td>
<td>33%</td>
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<tr>
<td>Company Data &amp; Collection</td>
<td>29%</td>
<td>32%</td>
<td>36%</td>
<td>39%</td>
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<tr>
<td>Reporting Bodies</td>
<td>26%</td>
<td>29%</td>
<td>26%</td>
<td>21%</td>
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Base: Respondents who see a lack of transparency as a challenge to ESG implementation (n=66)
Emerging ESG technologies are growing in speed, accuracy, and maturity—and asset managers are taking notice. One US Portfolio manager observed: “Artificial intelligence capabilities will improve the timing and depth of ESG investment regulation and disclosure.” A UK CFO commented: “(With) technological advancements such as AI, machine learning, and predictive analytics, investors will be able to evaluate ESG criteria in an increasingly sophisticated manner.”

Certainly, many applications to ESG investing are now possible. Machine-learning algorithms, for example, can analyze reams of digitized pages from company annual reports, financial disclosures and media stories to help analysts track performance against key ESG metrics. Internet-of-things sensors can collect real-time environmental data from factories, machines, and infrastructure. Geospatial technologies can be deployed to visually identify physical-asset vulnerabilities. Blockchain technologies can be used to verify sourcing in far-flung supply chains. Public cloud platforms increasingly help companies measure their Scope 1, 2 and 3 carbon emissions from computing infrastructure. Many other applications seem possible, especially with the advent of generative AI systems that can create structured analysis, insights and images from vast tracts of data.

Our 2023 results underline the importance of new technologies in narrowing the data vacuum (see Figure 7). Perhaps surprisingly, despite the recent hype around generative AI, machine learning was ranked somewhat behind other technologies such as big data analytics and internet of things. The exception was the US, where AI was the top technology, cited by 48% of firms.
The perceived potential of emerging technologies varies considerably according to the type of fund and how asset managers implement ESG. Asset managers identifying blockchain / distributed ledger technology as high potential, for example, are more likely to be those who are also implementing ESG in fixed-income assets (85%); possible applications could include use of blockchain for verification of micro-lending or trade and supply-chain finance. Asset managers focused on Internet of Things technologies are more likely to be those using indexes for measurement and benchmarking purposes (49%) than for investment strategies (25%). Asset managers seeing the potential of AI and machine learning are also overwhelmingly those who are implementing ESG in actively managed portfolios (80%, compared with 57% of the AI group who are doing ESG in quantitative portfolios). Asset managers seeing high potential in geospatial technologies are especially likely to be those running ESG in active exchange-traded funds (ETFs, 86%) and quant strategies (74%).

Our survey results also provide some early suggestive evidence that emerging technology adoption could lessen the analytical and implementation effort around ESG. For example, those asset managers who see high potential in AI and machine learning (and, arguably, have a higher propensity to use it) were more likely than the general sample to disagree (28% versus 21% total) that they were finding it hard to keep up with new ESG regulations; and they were also more likely to disagree that they found it hard to keep up with changing societal expectations around ESG (23% versus 17% for total).
As in previous years, assets managers still generally prioritize the ‘E’ part of ESG in their portfolio allocation decisions. Three quarters (75%) agree that environmental criteria almost always tend to be prioritized over social and governance criteria for ESG investing, and the same proportion (75%) agree that that the E should be prioritized. What is changing is that, for asset managers, environmental factors are increasingly multi-grained and no longer synonymous with just climate change or carbon footprints. Natural resource usage or depletion (42%), sustainable supply chains (39%), and resilience of physical assets to climate change (38%) rank above greenhouse gas / carbon emissions (32%) in terms of importance to ESG investing strategies (Figure 8). Biodiversity (30%) and waste generation (27%) also figure prominently.

While the evidence suggests that asset managers are now taking a broader and more nuanced view of environmental issues, the extent to which this view translates into portfolio allocations may be more limited. Just over two thirds (67%) of companies say that most of their portfolios are still climate-only, an improvement on the 74% of companies whose portfolios were climate-only in 2022. Although this strategic assessment of environmental factors did not vary greatly by country, US asset managers (Figure 8) put natural resource depletion as their top environmental factor (47%), followed by sustainable supply chains (44%) and physical-asset resilience to climate change (42%). This prioritization may reflect a more business-tinted view of environmental factors in the US, where the increasing occurrence of extreme weather events such as tornadoes and winter storms in recent years has caused significant disruption to many areas of production and distribution, as well as costly damage to physical assets such as warehouses and infrastructure.
For UK asset managers, reputation and regulatory risks remained the top factor, cited by 44% of respondents. In contrast to their US counterparts, UK respondents were less likely to rank natural resource usage (32% UK vs. 47% US) and sustainable supply chains (29% UK vs. 44% US) as prominent factors to their ESG strategy.

**Figure 8: Environmental factors that are most important to companies’ ESG strategies, 2023**

Base: Respondents that implement ESG criteria in portfolios, US (n=72), UK (n=75), FR (n=58), DE (n=65)
WIDENING LENS ON SOCIAL FACTORS

Social issues are now front-of-mind for many asset managers. In the words of a UK portfolio manager: “Past ESG investments have focused on the environment and governance, but future investments will increasingly focus on social issues.” A US portfolio manager remarked that: “The scope of ESG investment will expand beyond environmental protection and may include aspects such as human rights.” Others see social factors driving long-term value: “Emphasizing ESG and social value, many investment institutions have started to use social impact as a valuation indicator.”

Our survey data underlines the extent to which social factors are now firmly embedded in portfolios. More than three fifths of asset managers (62%) indicate that social criteria are a core part of all or part of most portfolios, a slight decline from the 69% rate recorded in 2022 (Figure 9). However, there are some significant regional differences. US asset managers (74%) are much more likely to incorporate social criteria in ESG compared to asset managers in other regions, notably in the UK where only 52% do so. Again, this illustrates the extent to which US ESG investing remains robust even in the face of significant political pressures. Asset managers from the larger funds (101bn or more), those implementing ESG in commodities, and those using indexes for investment strategies were more likely to see social criteria as a core part of all portfolios.

While societal factors are now firmly embedded within ESG strategies, it is also true that the disparate and amorphous nature of S factors creates challenges for firms: over half (54%) of asset managers 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.

"This year’s data underlines the extent to which social factors are now firmly embedded in portfolios."
Looking at “social asset managers” specifically, current tools appear satisfactory: 89% of those for whom ESG social metrics are a core part of portfolios say that current social sustainability tracking tools, metrics and services are fairly (43%) or very (46%) effective, broadly on par with environmental and governance tools and metrics. Yet asset managers worry about their future robustness: 31% of “social ESG” asset managers strongly agree that they are finding it difficult to keep up with changing societal views and expectations around ESG (compared with 24% for all); and 44% of those who say social criteria are part of most portfolios strongly agree that they will have to invest more in their ESG capabilities in coming years due to new ESG regulations (compared with 33% for all).

This year, for the first time, our survey of asset managers also sought to drill down further into the societal factors that are most important to companies’ ESG strategies. The results reveal a panoply of diverse issues, with supply chain management (ensuring these are free from unethical practices) (38%), safety and quality (37%), diversity and inclusion (34%), and data protection and privacy (32%) heading the list (Figure 10). The results were generally similar across regions, although UK asset managers were more likely to highlight equal employment opportunities (39%) compared to other regions.
Figure 10: Social factors that are important to ESG strategy, 2023

Base: Implements social criteria in portfolios (n=268)
GOVERNANCE IS GETTING ATTENTION

Asset managers are taking notice of corporate governance: what firms do, how they do it, and with whom. As one UK portfolio manager put it: “After five years, ESG investments (will) tend to lean towards companies with sound corporate governance.” Just over two thirds (67%) of companies say that governance criteria form a core part of all or part of most of their portfolios, the same proportion as in 2022. Governance criteria are particularly important for US asset managers, 78% of whom say it is a core part of all or part of most portfolios (up from 70% in 2022).

Governance is a broad term, so our 2023 survey sought to drill down further into the governance issues that are shaping companies’ ESG investing strategies (Figure 11). Top issues are fair business practices and business ethics (41%), accounting transparency (39%), and diversity among boards and leadership (35%). While there weren’t many major regional differences, French asset managers identified voting and shareholder rights as their top issue (45% versus 30% for the total sample). A comparison of these factors with those for E and S (discussed above) drives home the point that there is not a singular driver of ESG investing, with much depending on the distinct objectives of portfolios and investment approaches of asset managers.

Figure 11: Governance factors that are most important to companies’ ESG strategies, 2023

![Governance Factors Chart]

Base: Implements governance criteria in portfolios (n=270)
While those asset managers incorporating governance factors were generally satisfied with existing tools and metrics, they did see some room for improvement. 42% of “core ESG governance” asset managers strongly agreed that they would have to invest more in their ESG capabilities in coming years due to new ESG regulations (compared to 33% of all respondents). 38% would like to see a greater selection of ESG indexes (versus 26% of all); and 37% of assets managers who say governance criteria are part of most portfolios would like to see better ESG risk metrics for individual issuers and markets (versus 30% of all).

“Asset managers are taking notice of corporate governance: what firms do, how they do it, and with whom.”
ESG DRIVERS ARE MULTIFACETED

The growing prioritization of ESG investing is being driven by a constellation of social, economic, business and geopolitical factors (see Figure 12). Broadly, four overarching drivers can be discerned. First, there is a strong ethical / societal imperative—28% of companies highlight concern about ESG factors such as climate and corporate governance, while 26% point to the ethical obligation toward responsible investing. This goes hand-in-hand with a continued business imperative, with over one quarter (27%) seeing ESG as a means to diversify financial returns. As one UK portfolio manager put it: “Due to the potential for long-term financial gains and the possibility to connect their portfolios with their social and moral convictions, investors are becoming more and more attracted to ESG-related investments.” Another UK portfolio manager underlined the potential for shared value creation: “ESG investing will become a powerful tool for creating long-term value for investors, businesses, and society as a whole and (will be) positioned to capitalize the changes in the years ahead.”

The third overarching driver encompasses regulation and policy, with 24% citing the impact of the evolving political debate in the US, 21% pointing to reputation or regulatory risk, and 20% the impact of international agreements. Finally, geopolitics remains a clear and present influence, with 26% citing the energy crisis and 20% citing the role of geopolitical events such as the war in Ukraine.

Figure 12: Factors explaining why ESG has become more of a priority, 2023

Base: ESG has become more of a priority in company’s investment strategy over past 12 months (n=244)
These underlying motivations and drivers of ESG shape attitudes and responses across many aspects of ESG investing by asset managers. Based on the data above, asset managers were classified as one or more of the following: ethical imperative, financial imperative, and regulatory imperative driven (Figure 13).² “Ethical-imperative” managers are those who highlighted “concern about ESG factors” or “ethical obligation” as driving forces for the growing prioritization of ESG; “financial imperative” managers are those who selected “desire for increased returns” or “desire for increased diversification of returns” as driving factors; and “regulatory-imperative” managers are those who selected one or more of the following as drivers: “reputation or regulatory risk”, “concerns over greenwashing”, “international agreements”, and “political debate in the US”.

“Ethical imperative” managers, for example, are more likely to say that environmental criteria are a core part of all of their portfolios (44% versus 36% for the total sample, see Figure 13); they are also more likely to see governance criteria as a core part of portfolios (38% versus 30% for the total sample). Fair business practices are an important factor for them in the governance arena (48%, compared with total sample proportion of 41%).

“Financial imperative” managers differ from others in their relative emphasis on factors such as accounting transparency, use of indexes, and relative trust in different ESG data providers. In fact, in the governance sphere, accounting transparency was their most important governance factor (46%).

“Regulatory imperative” managers are more likely to view environmental criteria as a core part of all portfolios (41% versus 36% for the total sample); they are also more sensitive to issues of executive pay on the governance side and the shifting policy landscape for ESG.

² Note that asset managers may fall into two or more categories.
ESG ASSET CLASS EXPANSION CONTINUES, DRIVEN BY SIGNIFICANT GROWTH IN COMMODITIES

The IIA 2022 survey highlighted the growing role of fixed-income assets (bonds) in ESG investing, with 76% of companies implementing ESG criteria in these assets. In 2023 fixed-income ESG investing edged up further to 78% of companies, putting it on almost on a par with equities (80% of companies). However, the big story this year is around the dramatic rise in ESG investing in commodities, with the proportion of companies implementing ESG criteria for commodities rising from 37% in 2021, to 47% in 2022, and to 62% in 2023. And the commodities ESG momentum seems set to continue: 55% of asset managers expect to see the use of ESG criteria increase a lot or by a moderate amount over the next 12 months.

This trend in ESG investing is especially pronounced in France, where 80% of companies use ESG criteria in commodities. Passive index-based portfolios (72%) were also somewhat more likely to implement ESG criteria in relation to commodities (compared to the proportion of the total sample, 62%). The prevalence of ESG in passive index-based portfolios is likely due in part to the surge in energy and commodity prices over the last two years, leading to greater weight of ESG-screened commodities in passive portfolios.

Figure 14: Asset classes in which companies implement ESG criteria, 2021-2023
“Commodities” as a category represents a very broad array of assets, encompassing everything from hydrocarbon fuels and renewable energies, to raw materials, foodstuffs, minerals and the rare earth metals that power electric vehicles and other green technologies. The nature of ESG issues and drivers can therefore vary enormously—carbon impacts, supply-chain issues, labor standards, impacts on local communities, to name but a few. Our 2023 survey provides a snapshot of the main factors driving the growing role of ESG in commodities portfolios (Figure 15). While concern for ESG factors is the top driver overall, it is notable that the second driver is reputational and regulatory risk, cited by 27% of commodities investors (in comparison to 21% of all investors). High energy prices and the energy crisis also figure prominently as a driver of ESG commodities investing.

**Figure 15: Factors explaining why ESG has become more of a priority for commodities, 2023**

Looking more closely at environmental determinants of ESG strategy among commodities (Figure 16), we can see that “reputational and regulatory risks” emerges as the top factor, cited by 44%, followed closely by sustainable supply chains (the environmental impact of suppliers and partners, 41%), and then the resilience of physical assets to climate change (40%).
On the ‘social’ component of commodities ESG investing, the management of supply chains to ensure that they are free from unethical practices emerged as the top issue, cited by 39% of firms implementing ESG in commodities (see Figure 17). Issues such as safety and quality, data protection, diversity and inclusion, and equal employment opportunities also figured prominently.
TRUST: HIGH, BUT SOME SLIPPAGE

As in previous years, our 2023 survey asked asset managers whom they trust to push financial services ESG innovation. The picture is generally one of high trust, with around three quarters trusting regulators (75%), the asset management industry (78%) and index providers (79%) a lot or somewhat to push ESG innovation and standards. Nevertheless, there are some signs that trust levels have slipped back somewhat over the last year (Figure 18). In 2023, 79% of investors trusted index providers a lot or somewhat to push innovation, a decline on the 89% recorded in 2022. Trust levels for regulators, the asset management industry, and "other data providers" have recorded bigger declines. For example, in 2023, 66% of respondents trust other data providers to push ESG innovation and standards forward, compared with 80% in 2022.

The results indicate that trust is somewhat lower for "other data providers", a category that could include ratings agencies, reporting bodies, and various third-party data providers. As shown by Figure 6 above, for those respondents who see lack of transparency as a challenge to ESG implementation, ratings agencies were most frequently mentioned as the source for ESG definitions and scope, data sources and their coverage, and weightings attached to models. Regulators have also seen erosion of trust, falling from 91% in 2022 to 75% in 2023.

However, when asked who should be doing more to develop and improve ESG criteria and strategy for the fund management industry, companies generally saw it as a broad-based responsibility encompassing asset managers themselves, third-party data providers, index providers, regulators, ratings agencies, companies, and policy makers (between 33%-38% said these organizations should be doing more to develop and improve ESG criteria).

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**Figure 18: Proportion of respondents who trust the following players to push ESG financial services innovation, 2021-2023, % who trust a lot/somewhat**

<table>
<thead>
<tr>
<th>Category</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index providers</td>
<td>85%</td>
<td>86%</td>
<td>85%</td>
</tr>
<tr>
<td>Regulators</td>
<td>87%</td>
<td>86%</td>
<td>87%</td>
</tr>
<tr>
<td>Asset mgmt industry</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>Other data providers</td>
<td>75%</td>
<td>80%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Base: All respondents 2023 (n300), All respondents 2022 (n300), All respondents 2021 (n300)
Against this broader background, asset managers continue to place high levels of trust in market indexes. As in previous years, they particularly value indexes for their ability to respond quickly to new ESG concerns and issues, and their focus on specific areas of ESG performance (such as climate, etc.) (both 38%). As in previous years, indexes are widely used for measurement and benchmarking (41%), investment strategies (29%), and both (25%). Perhaps surprisingly, they are as widely used by actively managed funds as by passive index-based portfolios for measurement purposes (both 39%). But there is room for improvement and there are some areas where asset managers would like to see more from index providers, notably more specialized indexes focused on specific aspects or components of ESG (38%), and greater transparency on selection criteria for ESG index constituents (36%) (Figure 19). Asset managers who adopt social criteria as a core part of all portfolios were also somewhat less likely (30%) than the total (38%) to agree that indexes respond quickly to new ESG concerns and issues.

**Figure 19: Areas where asset managers would like to see more from index providers, 2023**

- More specialized indexes
- Greater transparency on selection criteria
- Greater transparency on the frequency of data
- Greater transparency on data sources
- Greater transparency on weighting of assets
- Help improving our ESG capabilities
- Greater standardisation of metrics and methods
- Better ESG risk metrics for individual issuers/markets
- Greater selection of ESG indexes

Base: All respondents 2023 (n300)
POLICIES HAVE CONSEQUENCES

Asset managers increasingly need to make ESG investment decisions against a shifting mosaic of international, regional and national policy frameworks and signals. The last several years in particular have seen a flurry of new initiatives and policy announcements. At the intergovernmental level, the UN 2022 Climate Change Agreement (COP27) reconfirmed the Paris Agreement targets for achieving deep cuts in global greenhouse gas (GHG) emissions by 2030, introduced adjustment support for developing countries, and proposed measures to mobilize international finance in the fight against climate change. On the biodiversity front, the UN 2022 Global Biodiversity Agreement introduced measures to protect 30% of the Earth’s land, ocean, coastal areas and inland waters by 2030.

Policy changes are also afoot at the regional and national level. Within the EU, the most pertinent legislation for ESG financial services is the Sustainable Finance Disclosure Regulation (SFDR), in particular Article 8 (so-called “light-green funds”) and Article 9 (so-called “dark-green funds”). Light-green funds are those which, while not explicitly focused on ESG, nevertheless promote environmental and social characteristics and follow good practice by integrating a variety of environmental and societal factors (technically, “Principal Adverse Indicators”, or PAIs) into their decision making. Dark-green funds are those that have sustainable investment or carbon reduction as a core objective, and are subject to more stringent conditions around adverse impacts as well as a requirement to do no significant harm. Both types of funds are subject to rules around information disclosure (e.g., pre-contracts, advertising), and the European Supervisory Authorities have recently consulted on extending the list of adverse economic and social indicators to be used in assessing the impact of these funds.

The US has also witnessed significant policy changes. The US Securities and Exchange Commission (SEC) is proposing new rules for greater corporate ESG disclosures. The US Inflation Reduction Act contains measures to promote increased investment in green technologies and infrastructure. More generally, there is a vigorous debate around the role of ESG taking place both nationally and at state level.

Policies have consequences, and our 2023 survey shows that investors are already pivoting rapidly in response to these international, regional and national policy shifts (Figure 20). 73% say that the UN 2022 Global Biodiversity Agreement will have a major or some impact on their ESG investing strategy. 88% of US firms highlight the impact of new SEC proposals for greater ESG disclosures, while two thirds (66%) of EU firms say the EU SFDR has had an impact on their investment strategies. For both US and European firms, the ongoing US political debate around ESG is also exerting a significant impact on ESG investment strategy (68% say it’s had a major/somewhat of an impact). The impact of that debate is particularly pronounced for US assets managers (78%). Three quarters (75%) of all companies expect that they will have to invest more in their ESG capabilities in the coming years due to additional ESG regulations.
The evidence also indicates that European asset managers are still facing formidable challenges in complying with SFDR. 46% report challenges due to a lack of available or easily accessible ESG data, 41% are concerned about resource constraints (having the time, staff and technology to meet requirements), and 37% worry that they have limited guidance on how to interpret and implement the requirements. As one US asset manager put it: “Regulations are moving so quickly and one of our challenges is that reporting requirements especially in Europe are becoming quite onerous and hard to keep up with.” Nevertheless, companies are pivoting fast in certain areas (Figure 21). For example, over half of EU companies have already reclassified funds between Articles 8 (light-green funds) and Article 9 (dark-green funds) in response to SFDR regulation. This trend is particularly pronounced amongst French asset managers.
CONCLUSION

The 2021-2023 IIA surveys of asset managers provide a unique perspective into how asset managers view the evolving ESG investment landscape and its potential future development. Three trends stand out over this period. First, asset-manager support for ESG investing in the US and Europe has remained rock solid, despite the political vicissitudes of ESG generally and significant economic and geopolitical volatility in both regions. Second, asset managers increasingly see ESG as a spectrum of issues, moving far beyond the conventional focus on climate change, a trend that undoubtedly foreshadows future changes in how business, regulators and other ESG actors measure and report on ESG impacts. Third, the AI and emerging technology revolution seems set to transform ESG reporting, creating potentially new levels of granularity in ESG insight and scrutiny, but also greater opportunities to integrate ESG factors into investment decisions.
ABOUT THE IIA
The Index Industry Association (IIA) is the global trade association for the index industry.
A not-for-profit organization serving the global community of independent index providers, IIA membership is open to independent index businesses worldwide. For more information about membership, please contact CEO Rick Redding.

OUR PURPOSE
The purpose of the Index Industry Association (IIA) is to represent the global index industry by working with market participants, regulators, and other representative bodies to promote sound practices in the index industry that strengthen markets and serve the needs of investors.

ABOUT THE AUTHOR
Mark Purdy is managing director of Purdy & Associates, an independent advisory and thought leadership firm focused on issues at the intersection of economics, technology and business. He has over 25 years’ experience as an economist in business and government. His recent work has focused on ESG and the economic and business impact of next-wave technologies such as AI. He has published widely in tier-1 media and business publications such as Harvard Business Review and Sloan Management Review. He speaks on economics and technology issues at conferences, client workshops and seminars around the world.

METHODOLOGY
The IIA commissioned Opinium, an independent strategic insight agency, to survey 300 Chief Investment Officers, Chief Financial Officers, and portfolio managers across four markets: the United States, United Kingdom, France, and Germany. There were 80 respondents from the US, 80 from the UK, 70 from France, and 70 from Germany. Fieldwork was conducted from April 18th to May 9th, 2023.

Opinium is an award-winning, independent strategic insight firm built on the belief that in a world of uncertainty and complexity, success depends on the ability to stay on pulse of what people think, feel and do.

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