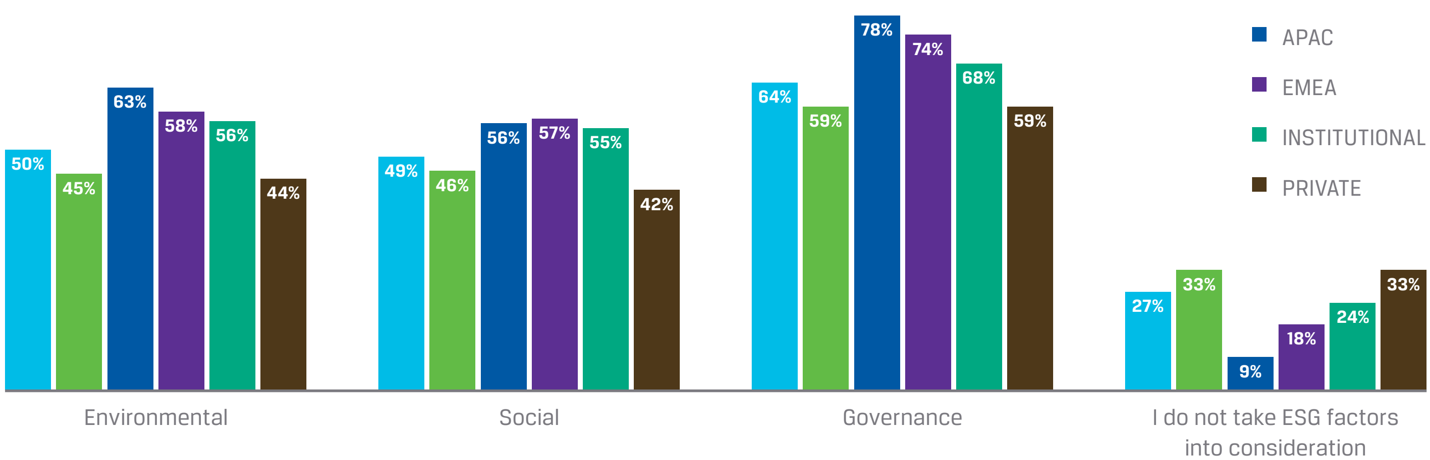
CFA Institute

ESG ISSUES IN INVESTING: INVESTORS DEBUNK THE MYTHS

This survey explains how investors view environmental, social, and governance (ESG) issues and data and the role ESG issues play in their investing process.

Which, if any, of the following ESG issues do you take into account in your investment analysis or decisions?



MYTH #1

Firms offer ESG products primarily for reputational reasons.

REALITY

The top reason investors consider ESG products is to adequately manage risk, and client demand is growing.

Why do you or why do you not take ESG issues into account in your investment decisions?

Top Reasons Why[1]

- **63%** To help manage investment risks
- **44%** Clients/investors demand it
- **38%** ESG performance is a proxy for management quality
- **37%** It's my fiduciary duty
- **37%** To help identify investment opportunities
- **30%** My firm derives reputational benefit

Top Reasons Why Not[2]

- **47%** Lack of demand from clients/ investors
- **35%** These issues are not material— no added value
- **21%** Lack of information/data
- **21%** Insufficient knowledge of how to consider these issues
- **15%** Inability to integrate ESG into my quantitative models

[1]Results are representative of the 73% who take ESG issues into account, n=967.
[2]Results are representative of the 27% who do not take ESG issues into account, n=358.

MYTH #2
ESG issues are mostly about environmental issues and climate change in particular.

REALITY
The top factor considered is board accountability, a governance issue.

Rate the following ESG issues in terms of importance to your investment analysis and decisions.[1]

Percentage selecting 4 or 5 on a 5-point scale

- **78%** Board accountability
- **62%** Human capital
- **61%** Executive compensation
- **54%** Environmental degradation
- **52%** Resource scarcity
- **50%** Demographic trends
- **47%** Supply chain
- **41%** Board diversity
- **40%** Climate change

MYTH #3
ESG implementation is primarily done through exclusionary screening.

REALITY
An integrated approach to ESG issues is now the most widely used method.

How do you take ESG issues into consideration in your investment analysis and decisions?[1]

- **57%** ESG integration in investment analysis and decision making
- **38%** Best-in-class investing and positive alignment
- **36%** Exclusionary screening
- **26%** Active ownership
- **23%** Thematic investing
- **21%** Impact investing
- **4%** Other

Use of ESG Data by Investors

How do you get ESG information and data?[1]

- **75%** Public information
- **66%** Third-party research
- **64%** Reports and statements from the company
- **50%** Direct engagement with the company
- **46%** Regulatory filings
- **4%** Other

Do you agree that public companies should be required to report at least annually on a cohesive set of sustainability indicators in accordance with the most up-to-date reporting framework?[1]

- **61%** of respondents agree
- A significantly higher percentage of respondents from APAC and EMEA agree, **84%** and **82%** respectively, compared with the Americas (**51%**)

Do you believe independent verification is necessary for ESG disclosures? If so, at what level?[1]

- **69%** of respondents think it is important that ESG disclosures be subject to independent verification
- Of these, **44%** believe that verification at a high level of assurance, similar to an audit, is necessary, whereas **46%** believe limited verification, or a lower level of assurance, is necessary

How much should be spent to obtain independent verification?

Of those in favor of independent verification:

- **26%** don't know
- **21%** say it should be <25% of this cost
- **18%** say it should be <50% of this cost
- **16%** say it should be <10% of this cost
- **10%** say it should be as much as the cost of the audit of financial statements
- **6%** say it should be <5% of this cost
- **3%** other

Survey Methodology

- **SAMPLE SIZE: 1,325** portfolio managers and research analysts (members of CFA Institute)
- **SURVEY TIME FRAME:** 26 May–5 June 2015
- **SURVEY RESPONSE RATE:** 3%
- **MARGIN OF ERROR:** ±2.7%

RESPONDENT PROFILE

- **REGION: 68%** from the Americas, **21%** from EMEA, **11%** from APAC
- **PRIMARY ASSET BASE: 41%** primarily deal with institutional clients, **31%** private, **16%** both, **12%** not applicable

For CFA Institute educational content on ESG issues in investing, please visit www.cfainstitute.org/ESG.

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