



# ESG

Ethics and investing: How **environmental, social, and governance** issues impact investor behavior



# ABOUT THE ALLIANZ ESG INVESTOR SENTIMENT STUDY REPORT

In December 2018, Allianz Life Insurance Company of North America (Allianz), working with the research company Ipsos, conducted an online survey to investigate consumer attitudes toward socially conscious investing.

Using a nationally representative sample of 1,000 respondents ages 18 years or older, this study found that company behavior and what it stands for is an important consideration as consumers decide whether or not to invest in or do business with them.

Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York are affiliated companies.

## WHAT IS ESG INVESTING?

Consumers now want more from companies than good service or quality products. Increasingly, they demand that businesses also have positive practices regarding environmental, social, and governance (ESG) issues.

Preferences that used to be separate and distinct – the issues that consumers care about, and the decisions they make about what to purchase – are starting to converge.

This evolution has created significant pressure on businesses to think beyond their products and services, and establish socially responsible and sustainability-focused practices.

But how significant is this trend, and how should businesses respond? To help find answers, we conducted The Allianz ESG Investor Sentiment Study.

Although much of the global attention within the ESG sector of investing has been placed on the environmental component, our study found that in the U.S., social and governance issues are equally (and sometimes more) important for consumers deciding whether or not to invest or do business with a company.

Further, the study found that a company's ESG profile plays a significant role in its overall reputation, as a majority of consumers believe companies focused on ESG issues have better long-term prospects.

As we'll see, this shift toward ESG investing has altered how a company's performance is measured and is redefining how consumers and professionals think about the returns and risks associated with investments

Americans are interested in all ESG topics, not just the environment.

## DOES RESPONSIBLE INVESTING MATTER?

At this time, only 15% of Americans know specifically what the letters "ESG" in ESG investing stand for. However, despite this low awareness, as they come to understand the idea of ESG investing, most see it in a positive light.

A majority (79%) say they love the idea of investing in a company that cares about the same issues as they do. A similar percentage (74%) believe ESG investments represent both a strategy they can feel good about and one that makes long-term financial sense. Nearly two-thirds (65%) also say that they would like to see ESG investment options in their 401(k)s, particularly millennials and Gen Xers.

Most see choosing this type of investment as a way to reward good companies – though many admit they wouldn't know how to evaluate

whether companies included in an ESG investment actually care about the causes they support.

This lack of uniform standards makes it harder to define, much less evaluate, what makes for a "good" ESG company or investment. For instance, six in 10 believe that no company can be perfect on every issue – making it difficult to consider any company worthy of an ESG investment.

And despite the generally positive reception, some skepticism remains – 59% would further argue that ESG investments aren't really a strategy, but just marketing/PR.

About \$20 trillion of AUM worldwide is ESG Investments.<sup>1</sup>

<sup>1</sup> Kell, Georg, "The Remarkable Rise Of ESG," July 11, 2018. [www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#4e5c822e1695](http://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#4e5c822e1695). Accessed 2/28/2019.

## WHAT ESG FACTORS MATTER MOST?

Americans are interested in all ESG topics, not just the environment.

The importance that Americans place on ESG issues influences the ways in which they think about spending and investing their money, and the decisions they ultimately make.

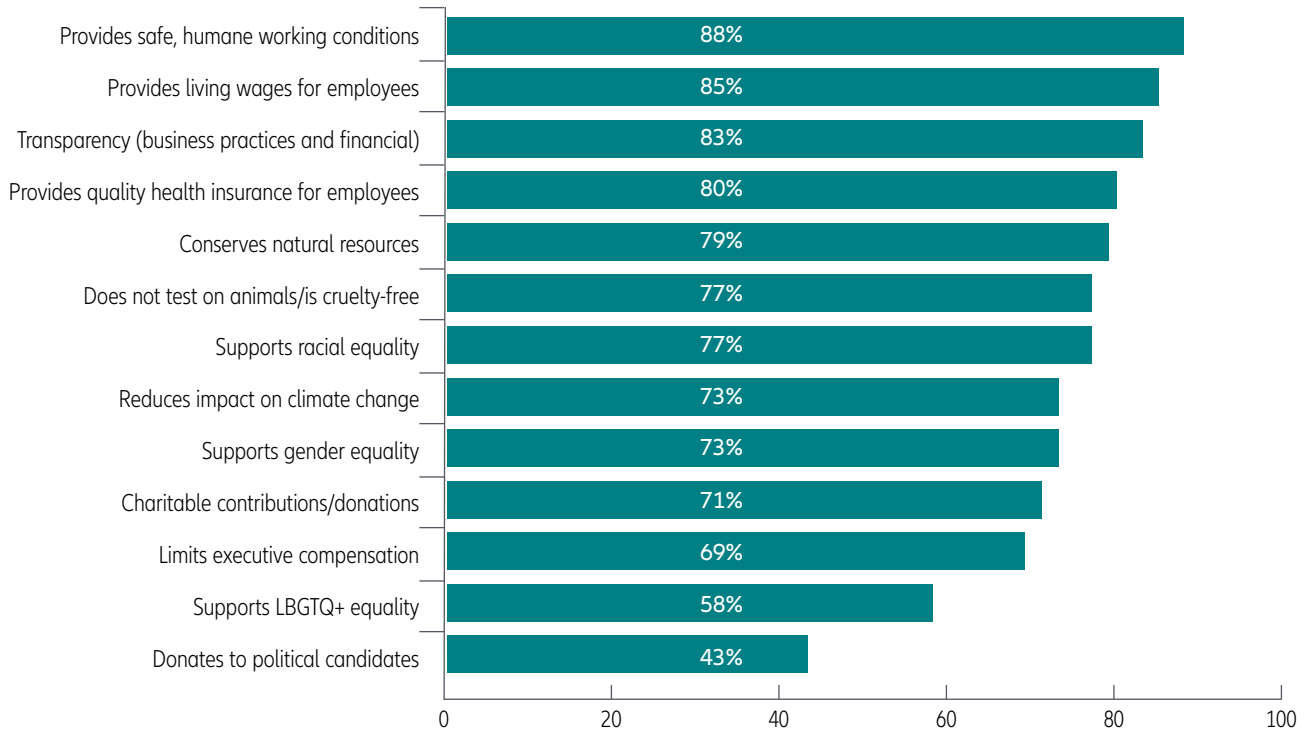
But while environmental factors are certainly important, the average investor is just as interested in a company’s social and governance practices.

When asked about the importance of a variety of ESG topics in deciding whether to invest in a company, 73% of consumers noted environmental concerns like natural resource conservation or a company’s carbon footprint/ impact on climate change. However, the same percentage emphasized social issues such as working conditions of employees or racial/ gender equality.

Almost as many – 69% – highlighted governance topics like transparency of business practices and finances or level of executive compensation as being significant in their decision-making.

Similar trends can be seen in consumer decisions to do business with a company. More than one-third (34%) of respondents said a company’s stance on social issues was the most important factor in relation to their decision to actually do business with a company, followed by 27% who indicated corporate governance issues were a top priority. Less than a quarter (22%) cited a company’s record on environmental issues as their chief concern.

### ESG factors having the strongest impact on the decision to do business with a company:

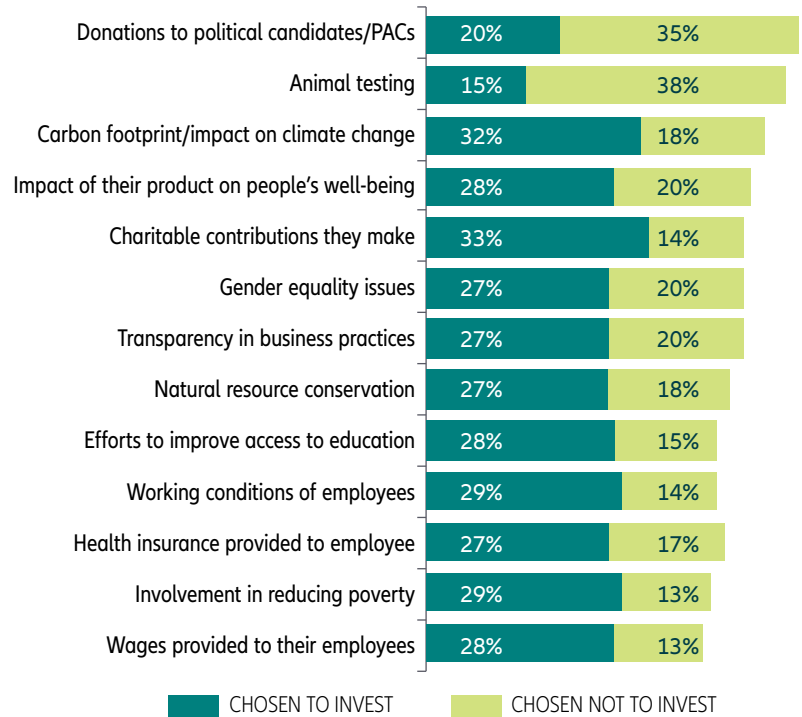


## A PREFERENCE TO REWARD RATHER THAN PUNISH?

We've seen how people say they prefer to do business (or not do business) with a company because of business practices related to factors like corporate accountability, climate change, and affordable health care for employees.

While these beliefs don't always correlate with investment actions, those interested in ESG investing are looking to support companies that care about the same causes they do (56%) and believe it to be the best way to reward companies for being good citizens (53%).

Among the ESG issues highlighted in the study, 11 issues were said to be more influential in causing investors decision to actively invest. Only two issues exerted more influence in causing people to stop investing.

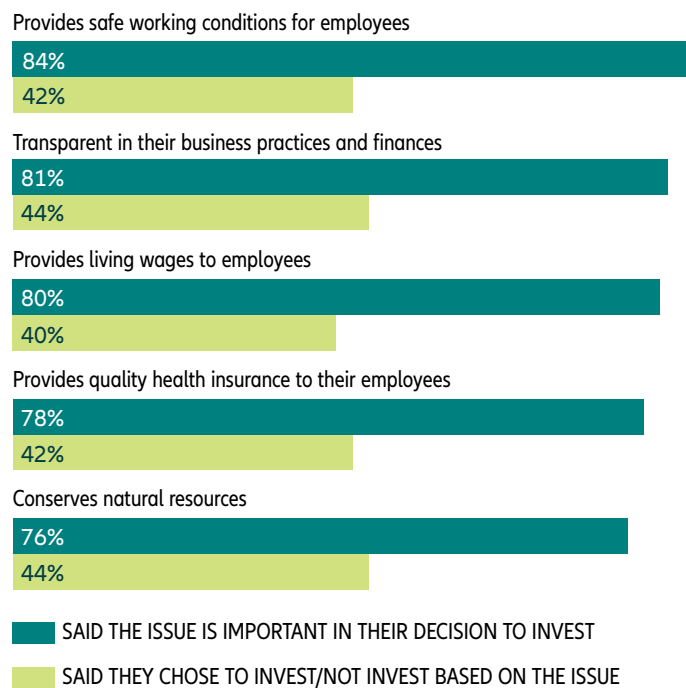


## DO ESG CONSIDERATIONS DRIVE INVESTMENT ACTIONS?

Most consumers (74%) agree that a focus on ESG investing is both “a strategy that you can feel good about, and one that makes long-term financial sense.” However, a significant gap exists between what people say is important and how they actually invest.

More than three-quarters of respondents said the ESG issues highlighted in the chart were important in deciding whether to invest or not invest. But at the same time, less than half said that their final decision was based on those considerations.

Although people generally like the idea of their investment portfolio reflecting their values, in the end, it's the returns that matter. Nearly everyone – 95% – expects their financial professional to help ensure that their money is in funds that perform best for them.



More than half (55%) of respondents believe that an investment strategy that takes into account things like the environment, social causes, and being a good corporate citizen probably means low returns. Even more (77%) would reduce money in an ESG investment if it was underperforming.

That could be why 56% prefer to keep their ethical and financial decisions separate.

## MILLENNIALS ARE DRIVING RESPONSIBLE INVESTING.

Expect greater attention to be paid to a company's ESG performance as information becomes more available.

Though at least two-thirds of adults across all generations have a positive opinion of ESG investing, millennials in particular are more likely to support companies that hold similar social values. They also have greater interest in investing in companies that hold ESG values.

About 55% of millennials currently working with a financial professional have discussed ESG investing with them – compared to just 25% of Gen Xers and 11% of boomers.

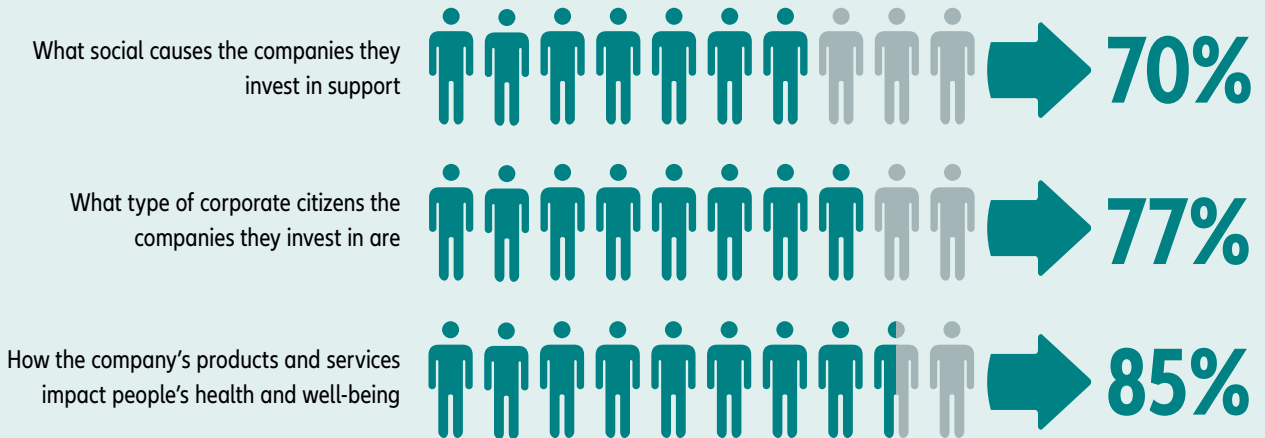
For this group, ESG investing is a way to align their values with their financial goals. Significantly, the vast majority of millennials (81%) say it isn't just about an investing strategy that they can feel good about, it's one that makes financial sense.

Millennials (57%) are also more likely than boomers (35%) and Gen Xers (42%) to say they have intentionally stopped investing or chosen to invest in a company because of the impact the company's products or services have on people's health or well-being.

Millennials' interest in ESG issues makes them more likely to care about factors that go beyond the financial performance of a company. And they expect their financial professional to help them make investment decisions. Nine in 10 millennials (89%) expect their financial professional to do a deep dive into a company's history, compliance, and values before recommending an investment opportunity.

Millennials are also more likely to believe companies that support social causes have better long-term financial success than traditional companies.

### Customers are interested in learning about ...



## FINANCIAL PROFESSIONALS HAVE A KEY ROLE IN ESG INVESTING.

As interest in ESG investing continues to intensify, so will the demand for more information about socially conscious investments. Clients today feel like they simply do not have enough information to understand and build confidence in ESG investing.

Most say they expect their financial professionals to inform them about opportunities available in socially conscious investing. Yet few financial professionals have discussed ESG investing with their clients – in fact, only about three in 10 clients (29%) have discussed, or remember discussing, some type of ESG investment with their financial professional.

Among those clients who have discussed ESG investments with their financial professional, 69%

say they were the ones who initiated the topic.

Most respondents said that they wish there was more information available about this type of investing – but they also recognize that it would take a lot of effort for them to do the research on their own. As a result, over three-quarters of clients (76%) expect their financial professional to inform them about the business practices of the companies they invest in.

This is an obvious opportunity for financial professionals to educate their clients about ESG investing and proactively discuss different opportunities that clients can take advantage of.

## THE WAY FORWARD: HELPING CLIENTS SEE THE BIGGER PICTURE.

For financial professionals, the rise of ESG investing is an opportunity – some would even say a responsibility – to engage their clients in a new, meaningful way.

Though only 18% of people currently working with a financial professional are participating in ESG investing, nearly three times as many – 51% – say they are interested in having some money in ESG investments.

Yet, not enough financial professionals are starting conversations about this type of investment strategy with their clients – and consumers want them to take initiative. Consumers are looking for guidance on:

- Which companies are included in ESG investments
- Information on the business practices of the companies they invest in
- How to evaluate whether companies actually care about the causes they support
- How to gauge if companies truly are “good” corporate citizens

Market trends indicate that the demand for responsible investment options will keep growing over the next decade, particularly as millennials – the generation exhibiting the greatest interest in responsible investing – come into financial maturity.

Helping to redirect their focus from just the bottom line toward a more expansive view of business success containing ESG considerations has the potential to fundamentally reshape the nature and value of financial professional advice.

Investors will be looking at more than just the best way to turn a profit.



WWW

For more discussion of ESG issues that impact investment decisions, as well as additional data from The Allianz ESG Investor Sentiment Study and information on how Allianz is responding to ESG concerns, visit [www.allianzlife.com/ESG](http://www.allianzlife.com/ESG) or [www.allianzlife.com/new-york](http://www.allianzlife.com/new-york).

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