RESPONSIBILITY IN WEALTH

FACTSET SEE THE ADVANTAGE

High net worth individuals (HNWIs) are increasingly seeking to work with and invest in companies with strong environmental, social, and governance (ESG) credentials. As well as looking for companies that do good, many clients are starting to probe deeper into what it means to be a responsible organization. They are actively considering what impact accountable firms can have on their portfolios, the real economy, and communities. Firms accordingly must pay attention to their clients' fast-evolving views of responsible wealth.

To better understand the impact of shifting HNWIs' views on responsible investing in the wealth management industry, FactSet undertook its fourth consecutive survey into the behaviors and preferences of wealthy investors. In November 2020, FactSet, in association with Aon, conducted a global online poll of 800 investors with an average net worth of $1.6 million. FactSet and Aon's latest research, which surveyed the attitudes of affluent and HNW investors across five markets (the U.S., Canada, UK, Switzerland, and Singapore) finds that although investors agree that wealth managers should be responsible organizations, perceptions around how firms should demonstrate their responsibility vary widely.

Clients increasingly want to see the wealth management industry lead in this area and ensure their data, insights, and ratings can give a well-rounded view of their investments, including in areas that are not standardized. They must also be prepared to walk the talk and show that responsibility is central to their corporate behavior to be credible. In this eBook, we examine why this time it really is different for responsible investing, which is galvanizing investors and the industry alike.

800
INVESTORS

AVERAGE NET WORTH OF
$1.6
MILLION

THE U.S., CANADA, UK, SWITZERLAND, AND SINGAPORE

4 KEYS TO SUCCESS

1 PAY ATTENTION TO CLIENTS' FAST-EVOLVING VIEWS OF RESPONSIBLE WEALTH

Seventy-two percent of clients are open to learning more about responsible investing. Wealth managers need to ensure that their data, insights, and ratings can deliver a well-rounded view of clients' investments, including in areas that are not yet easily measured.

2 PROVIDE CLIENTS WITH DATA ON GOVERNANCE AT THE COMPANIES IN WHICH THEY INVEST

Reports on corporate governance and executive pay are important proof points of responsibility to clients. And although being a responsible organization can mean different things to different investors, many clients agree that trust and transparency in the investment process are more important than ever.

3 FRAME THE THEME OF RESPONSIBILITY IN THE CONTEXT OF CLIENT VALUES

Younger generations care about a broader range of issues than their older peers and want to be associated with businesses that build a better future. Be prepared to customize the investment process and insights provided, so clients know their values are not being compromised.

4 BOOST "INVESTMENT EQ"

Advisors should be prepared to discuss the implications of global events on clients' portfolios. These can be used as a springboard for a wider discussion on responsible and values-based investing.

INTRODUCTION

The pandemic and growing media focus have intensified HNWIs' appetite for responsible investing, particularly among younger investors who, according to several recent studies, now make up approximately half of the global working population. Data from the Institute of International Finance shows that since the end of 2019, global funds holding ESG assets increased by 50%, beyond $1.3 trillion.[1] And even as investors retreated from mainstream funds during the March 2020 downturn, ESG products continued to attract attention.[2]

HNWIs' shifting outlooks and priorities mean that they occasionally make decisions without seeking financial advice beforehand. This can have unintended consequences, so wealth managers will have an even more critical role to play in safeguarding their clients' financial futures into the 2020s.

There are signs, however, that the industry could do a better job of reflecting some emerging client realizations into the investment process. Diversification of assets has long been considered a guiding principle of sound portfolio construction. However, as well as diversifying assets, clients now want to include additional ways to structure and protect their investments [Figure 1].

Given the lingering market uncertainty, HNWIs see a range of external shocks on the horizon that could unpredictably impact their portfolios. These include regional trade tensions, excessive equity valuations, and diverging views on the prospect of medium-term inflation. To feel (re)assured about the future, they want to better understand the investment process wealth managers go through to screen and select securities for their portfolio.

Advisors should be aware of other elements that clients find important and address these in the investment process. For example, 85% of HNWIs prioritize investing in brands they know and trust [Figure 1]. Approximately three quarters are also interested in investing in emerging markets or industries, while adding an ethical overlay to their holdings.

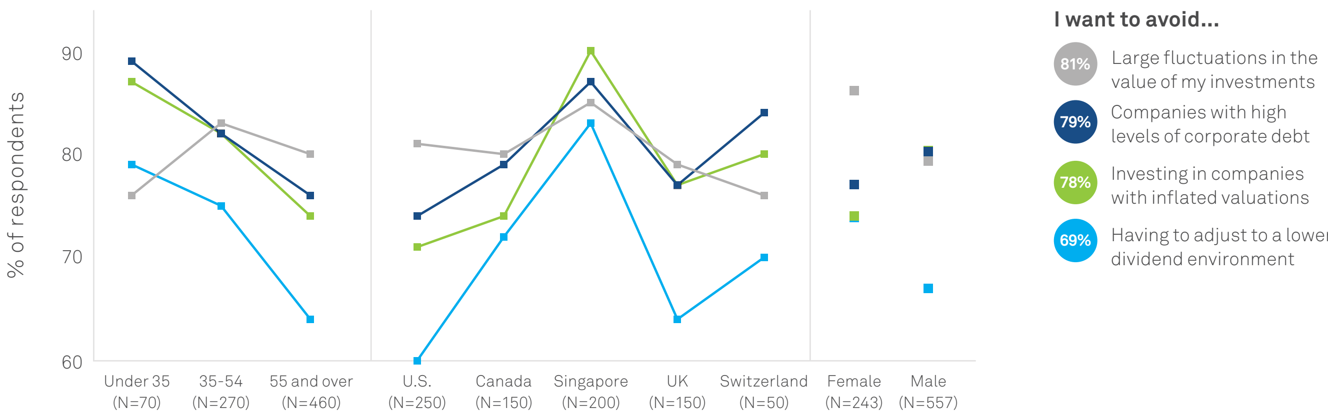
In the U.S. and Canada, investing in trusted brands is important to 82% and 85% of investors, respectively. In Switzerland, a range of metrics (including tapping into high-growth sectors and ethical screening) are just as relevant as diversification in the portfolio construction process.

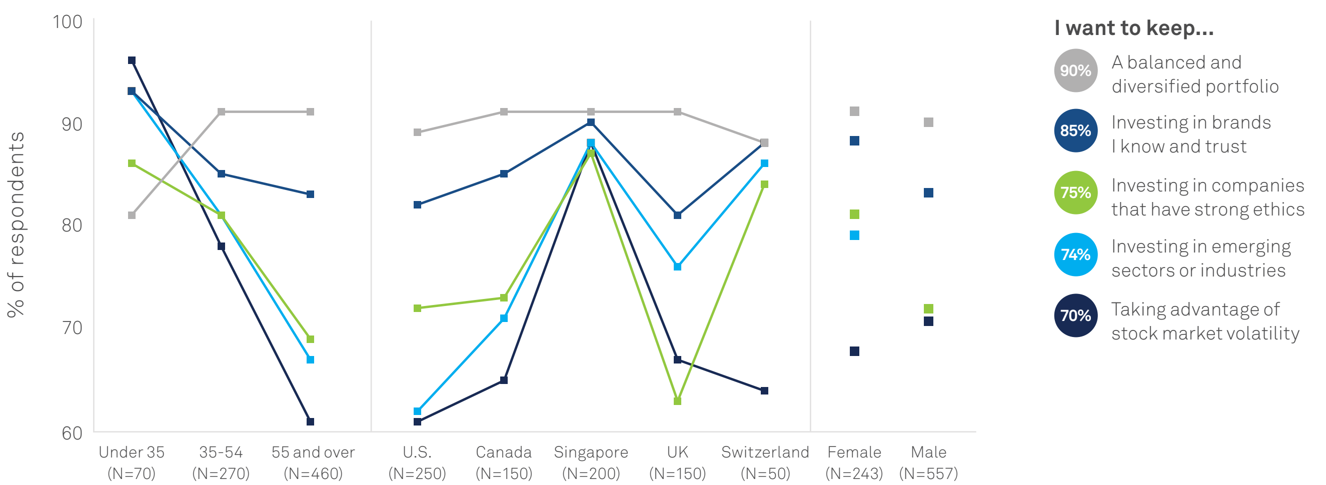
[1] *Mackenzie, Michael, "Green Energy Funds Top League Table in Banner Year for ESG," Financial Times, December 26, 2020, https://www.ft.com/content/cad6fcf9-f755-4988-9c75-d41a9b6ff6d8*

[2] *Attracta Mooney and Patrick Temple-West, "Climate Change: Asset Managers Join Forces with the Eco-Warriors," Financial Times, July 26, 2020, https://www.ft.com/content/78167e0b-fdc5-461b-9d95-d8e068971364*

FIGURE 1: DIVERSIFICATION IS IMPORTANT, BUT OTHER PORTFOLIO FEATURES ARE ALSO RELEVANT

Q To what extent is each of the following important to your investment approach?





Source: FactSet (2021)

Advisors can leverage these emerging areas of interest to differentiate their investment process from the competition and evidence their delivery of a more bespoke and customizable service. Advanced data and analytics are fundamental if advisors are to initiate more targeted conversations with clients.

Although 2020's investment conditions tested everyone's resilience, markets move on and so must investors and their advisors. Looking ahead, in addition to providing stability and reassurance and reviewing clients' goals and exposure to risk, advisors will need to think carefully about how to communicate other areas of their investment expertise most effectively for each client. The next generation of investors is on the lookout for experts that do more than manage wealth.

Clients and the wealth management industry are waking up to the benefits of making responsibility central to their strategies.

NO CONSENSUS ON WHAT "RESPONSIBLE" MEANS

With a growing business case and a proven track record, both clients and the wealth management industry are waking up to the benefits of making responsibility central to their strategies.

Our data finds that older clients and wealthier investors are most likely to feel strongly about their wealth manager being a responsible firm, with approximately three in five giving scores of 9 or 10 for importance [Figure 2].

This may be because younger and mass affluent investors tend to be self-directed investors and therefore feel more in control of where their money goes, relative to older peers who have advisory or discretionary relationships.

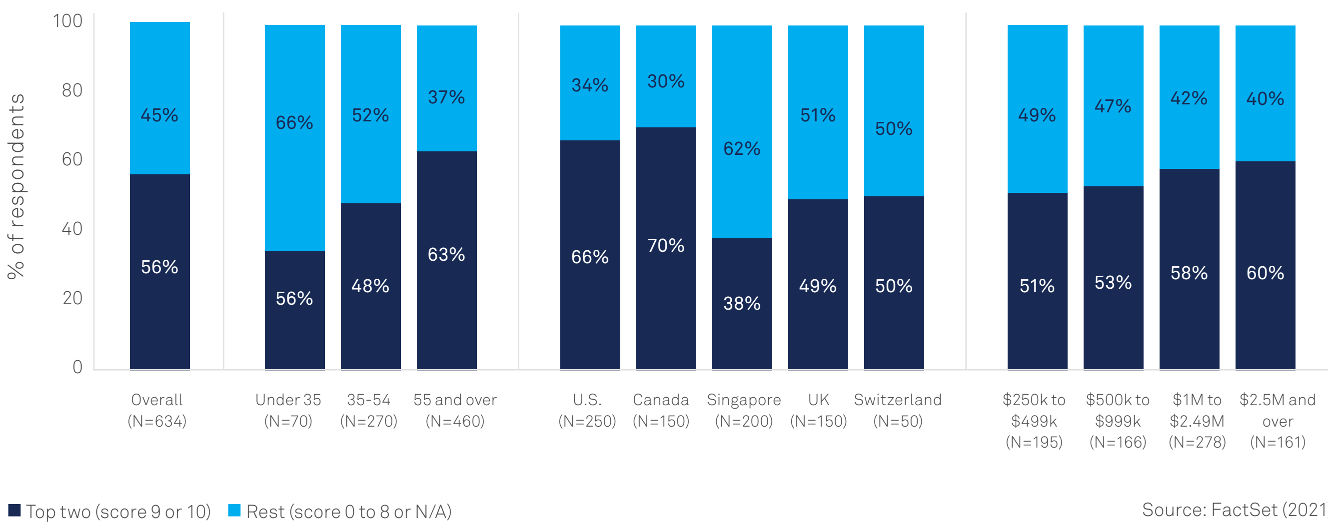
Investors in Canada and the U.S. feel strongest about the organizational responsibility of their wealth management firm—possibly because of ongoing regulation in the wealth management industry, such as the U.S. Department of Labor's Fiduciary Rule.[3]

Although being a responsible organization can mean different things to different investors, many HNW clients agree that trust and transparency are crucial elements, injecting confidence into their decision making. Indeed, data shows that in 2020 transparency in the investment process became an even stronger proof point relative to 2016—particularly in the U.S. and Switzerland [Figure 3].

[3] *"Fiduciary Responsibilities," U.S. Department of Labor website, https://www.dol.gov/general/topic/retirement/fiduciaryresp*

FIGURE 2: ORGANIZATIONAL RESPONSIBILITY IS A PRIORITY—PARTICULARLY FOR NORTH AMERICAN INVESTORS

Q How important to you is it that your wealth management firm is responsible (on a scale of 1 to 10)?



Source: FactSet (2021)

Over the last five years, there has been a proliferation of funds marketing themselves as "ESG" with questionable claims to that label, so it is likely that investors are now more concerned about greenwashing and how to understand the selection process of securities.

Reporting on corporate governance, executive pay, and customer feedback is also important to clients in Singapore and the UK as evidence shows that well-governed, customer-centric, and people-focused organizations tend to perform better. In Canada, clients consider details around a company's corporate social responsibility (CSR) initiatives and gender pay insights when making decisions.

A clear test case for many HNWIs will be how the companies in which they are considering investing treated their employees and clients during the turbulence of 2020. Having access to news coverage would help them round out other data sources on company practices to build a fuller picture of how well the organization is being managed.

HNWIs can leverage a range of reports and ESG credentials to inform their conversations around responsible investing.

MORE TO RATINGS THAN MEETS THE EYE

When discussing responsible investing, HNWIs can leverage a range of reports and ESG credentials to inform these conversations. However, perceptions around how firms should demonstrate their impact and responsibility vary across demographics and regions.

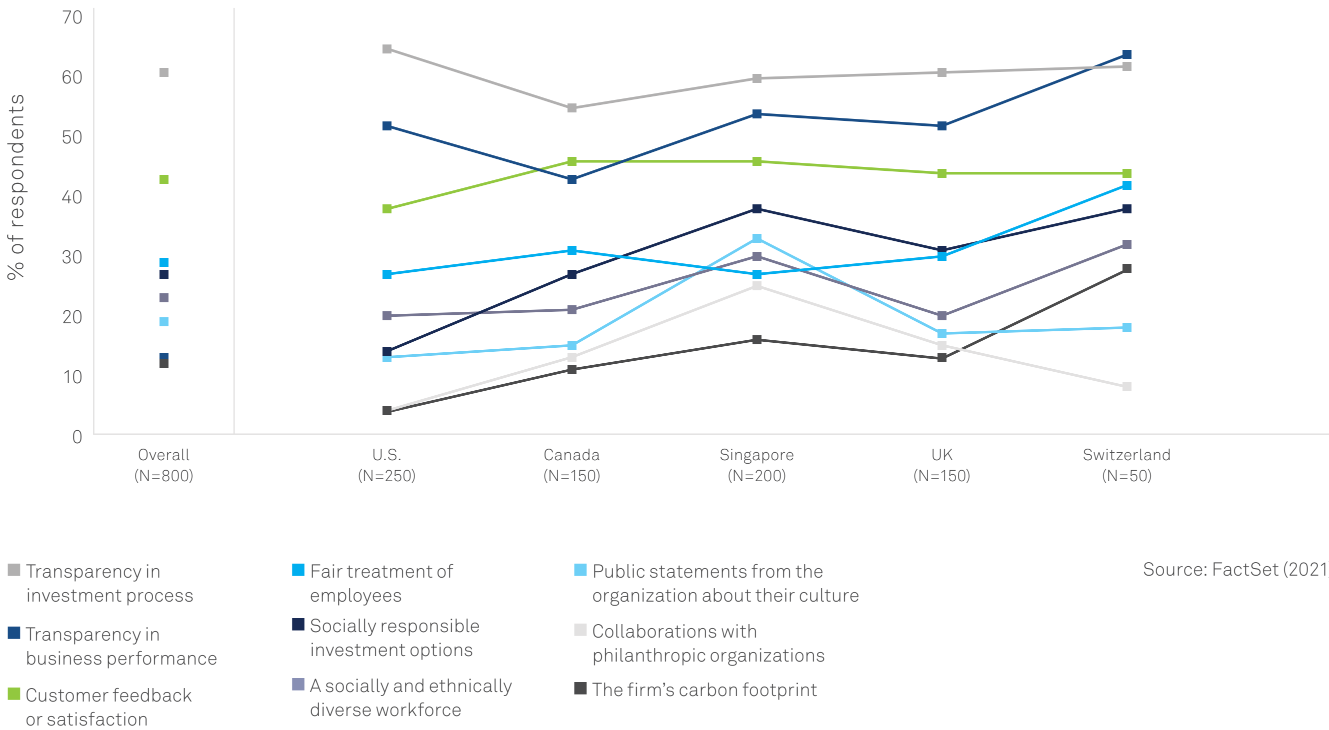
In Switzerland, for example, investors are visibly more focused on companies' carbon footprints, the need for diverse and inclusive workforces, and fair treatment of employees [Figure 3]. In fact, Swiss company Nestlé recently committed €3 billion to cut its greenhouse gas emissions and declared a bold goal to eliminate all emissions from its supply chain by 2050. Proposed measures range from changing the way its agricultural suppliers operate to reducing business travel and increasing the amount of recycled plastic used in its packaging.

Outside of North America, HNW clients look for evidence of socially responsible investment options. In Singapore, investors are more interested in hearing about CSR initiatives, like collaborations with charities and employees volunteering for good causes.

Millennials (aged under 35) continue to have a broader frame of reference than other clients and are more likely to consider customer feedback and satisfaction, the use of socially responsible investing screening, and company statements on culture.

FIGURE 3: TRANSPARENCY IS A DEFINING FEATURE OF RESPONSIBILITY

Q Do you look for any of these evidence points to determine whether your wealth management firm is a responsible organization?



Source: FactSet (2021)

In response to rising interest, the number of ESG rating providers has increased over the years, and so has the breadth of evidence points on which they report. However, the challenge with ESG ratings is that they rely largely on data provided by the organization. Due to complex outsourcing and global production processes, companies may not always know issues in their supply chains and therefore are unable to disclose or address them.

For example, in 2019, after several supply chain scandals, two fifths of Apple's shareholders voted for the company to publish a report about its stance on human rights in China; that same year, Apple relented and published its first human rights policy.

Advisors should therefore not rely solely on rating agencies but rather use them as a starting point. Once interest is established, following up with their own research and wider industry analysis will reassure clients that their values are not being compromised and that their investments continue to be aligned with their goals.

72%

of HNW investors are interested in learning more about responsible investing.

GROWTH THROUGH VALUES-DRIVEN INVESTING

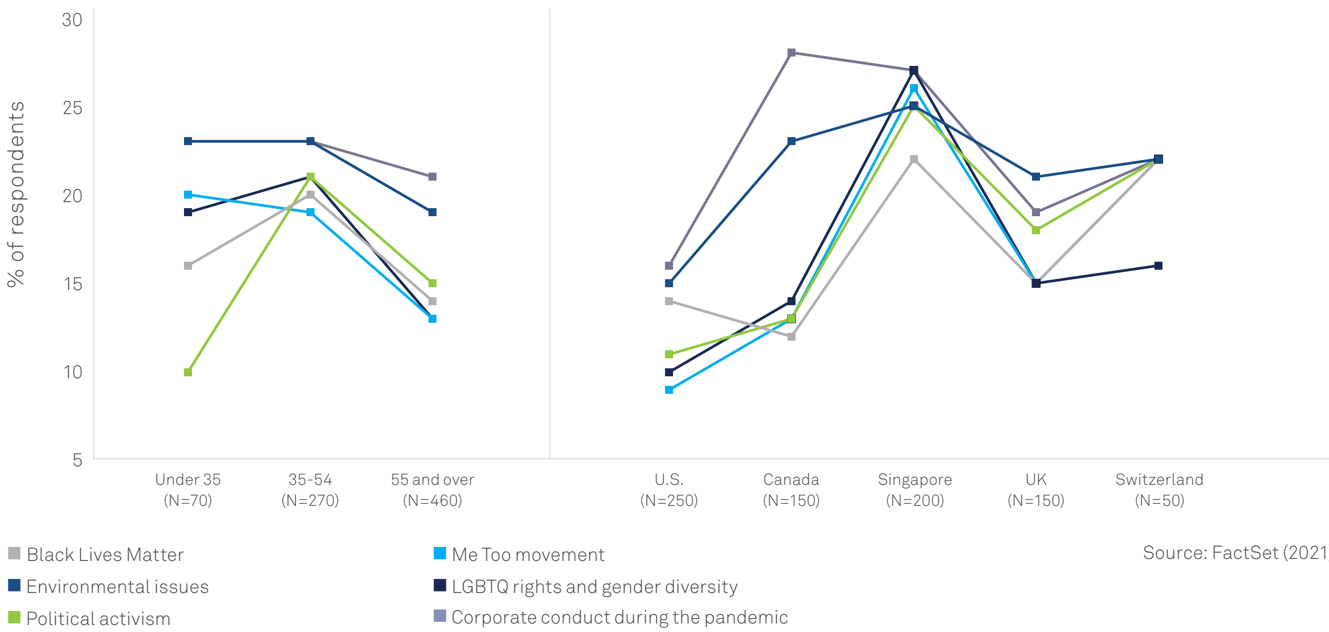
Wealth managers wanting to differentiate themselves and elevate their brand should consider framing the theme of responsibility in the context of client values. The next generation of clients is set to receive over $30 trillion of inherited wealth by 2025,[4] a proportion of which will be allocated to ESG funds. To deepen relationships further and improve client outcomes, advisors will need to start making suggestions for more relevant responsible investment opportunities.

Our data on the younger generations finds that they care about a broader range of issues than their peers. They want to be associated with businesses that reflect a better future, and therefore, as well as looking at a firm's environmental track record, they pay close attention to conversations around company culture and corporate conduct. Investors under 55 are particularly open to discussing their investments and their impact in the context of global events like Extinction Rebellion, the Me Too movement, and Black Lives Matter protests.

[4] *"Why Sustainable Investing Matters," June 19, 2018, https://www.ey.com/en_uk/financial-services/why-sustainable-investing-matters*

FIGURE 4: CLIENTS WANT TO BETTER UNDERSTAND THE LINK BETWEEN GLOBAL EVENTS AND THEIR WEALTH

Q Which of the following recent global events would you like to discuss in the context of your wealth management but have not yet been raised?



Source: FactSet (2021)

Most wealth managers, however, have yet to raise these topics with their clients, possibly because they find them uncomfortably political or too sensitive. But not raising the question means they miss out on the chance to discuss their clients' views and values.

For example, 43% of investors can point to at least one big recent global event they are interested in but have yet to discuss with their advisor. This rises to 49% of Millennials and 53% of Generation X (aged 35 to 54). HNWIs in Canada highlight particular interest in corporate conduct (28%) and the environment (23%), while for those in the U.S., Black Lives Matter (14%) is also important [Figure 4].

Millennials are paying more attention to operational and reputation risk, demanding company insights on supply chain practices, labor treatment, and carbon emissions. Generation X and Baby Boomers (aged 55 and over) are more focused on governance insights, such as management profiles, executive pay, CSR efforts, and even political contributions.

Of course, there is a need to think carefully about how these themes are broached and with which clients. But, given that 72% of HNW investors are interested in learning more about responsible investing, and over one third want these investments to be aligned with their personal values, wealth managers have an opportunity to expand relationships and make a more meaningful connection between clients' investments and their recommendations.

A reflection of this is the number of investment professionals specializing in holding boards to account for ESG issues—we have seen this double over the last three years.[5] Increasingly, the industry has come to recognize that environmental, social, and governance factors all feed into overall investment risk, so understanding how to deliver sufficient due diligence protection is important.

But firms that want to be leaders in responsible wealth management should be prepared for the lens of scrutiny to extend past the investment view. Their firm's corporate conduct may also be assessed. When making recommendations, advisors therefore need to be prepared to discuss action being taken at their organization, as well as at companies in which a client may be investing (or is interested in).

[5] *Attracta Mooney and Patrick Temple-West, "Climate Change: Asset Managers Join Forces with the Eco-Warriors," Financial Times, July 26, 2020, https://www.ft.com/content/78167e0b-fdc5-461b-9d95-d8e068971364*

CONCLUSION

As the impact of the pandemic becomes clearer and the strain on the environment and society more visible, the influence of responsible investing can only continue to grow. And with the next generation of investors more eager to ask questions and seek out non-financial results in their portfolio performance, ESG considerations are already becoming fundamental to their criteria.

Wealth management organizations that genuinely want to lead in this area will need to ensure that their data, insights, and analysis can deliver a well-rounded view of corporate conduct, including in areas of governance that are harder to define and measure.

The pandemic gives firms license to have more "human" conversations that probe around inconvenient truths and clients' social consciences. The business case is also becoming more clearly linked to creating long-term resilience and sustainable ecosystems that create value for employees and clients, not just shareholders.

As momentum builds, it will become harder not to have a view. But wealth management firms should realize that the broad scope of responsibility means their corporate conduct will be fair game.

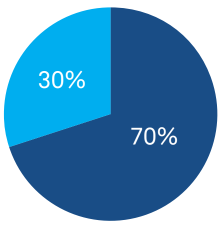
METHODOLOGY

FactSet commissioned Aon's Client Insight team to conduct an online survey with 800 mass affluent and HNW investors across the U.S., Canada, UK, Switzerland, and Singapore. Respondents had to have at least $250,000 in investable assets, and the average net worth was $1.6 million.

OVERALL RESPONDENTS

800

GENDER



243 FEMALE RESPONDENTS

557 MALE RESPONDENTS

AGE

UNDER 35 — 70 RESPONDENTS — 9%

35-54 — 270 RESPONDENTS — 34%

55 AND OVER — 460 RESPONDENTS — 58%

Shares may not add to 100% because of rounding.

COUNTRY

U.S.	250 RESPONDENTS	31%
CANADA	150 RESPONDENTS	19%
SINGAPORE	200 RESPONDENTS	25%
UK	150 RESPONDENTS	19%
SWITZERLAND	50 RESPONDENTS	6%

NET WORTH

195 24% RESPONDENTS — $250K - $499K

166 21% RESPONDENTS — $500K - $999K

278 35% RESPONDENTS — $1M - $2.4M

161 20% RESPONDENTS — $2.5M AND OVER

NET WORTH

AFFLUENT (LESS THAN $1M) 45%
361 RESPONDENTS

HNW ($1M AND OVER) 55%
439 RESPONDENTS

INVESTOR PROFILE

36% **SELF-DIRECTED** — 289 RESPONDENTS

47% **ADVISORY** — 378 RESPONDENTS

17% **DISCRETIONARY** — 133 RESPONDENTS

TECHNOLOGY PROFILE

9% DIGITAL PHOBIC — 70 RESPONDENTS

19% DIGITAL LAGGARD — 155 RESPONDENTS

49% DIGITAL FOLLOWER — 394 RESPONDENTS

23% EARLY ADOPTER — 181 RESPONDENTS

RISK PROFILE

15% DEFENSIVE — 116 RESPONDENTS

31% CAUTIOUS — 247 RESPONDENTS

47% MODERATE — 377 RESPONDENTS

7% ADVENTUROUS — 55 RESPONDENTS

Based on the number of respondents who answered this question

Research was undertaken in November 2020 and all participants were independently sourced.

FactSet Research Systems

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FACTSET 〉 SEE THE ADVANTAGE

Aon's Client Insight team

Owned by Aon plc, Aon's Client Insight team is a leading insight and strategy consultancy to the global wealth industry. We specialize in understanding ultra/high net worth individuals and the financial institutions with which they interact, sharing our expertise with business leaders to enable them to drive business growth and performance.

As a global team of consultants, we have a deep understanding of the challenges facing the wealth management industry and the opportunities for growth. We have a passion for improving client outcomes. Our core competencies are client engagement studies, thought leadership, brand tracking assessments, and strategic consulting.

To date, we have collected more than 150,000 individual client responses globally—providing unparalleled insight to the institutions we work with.

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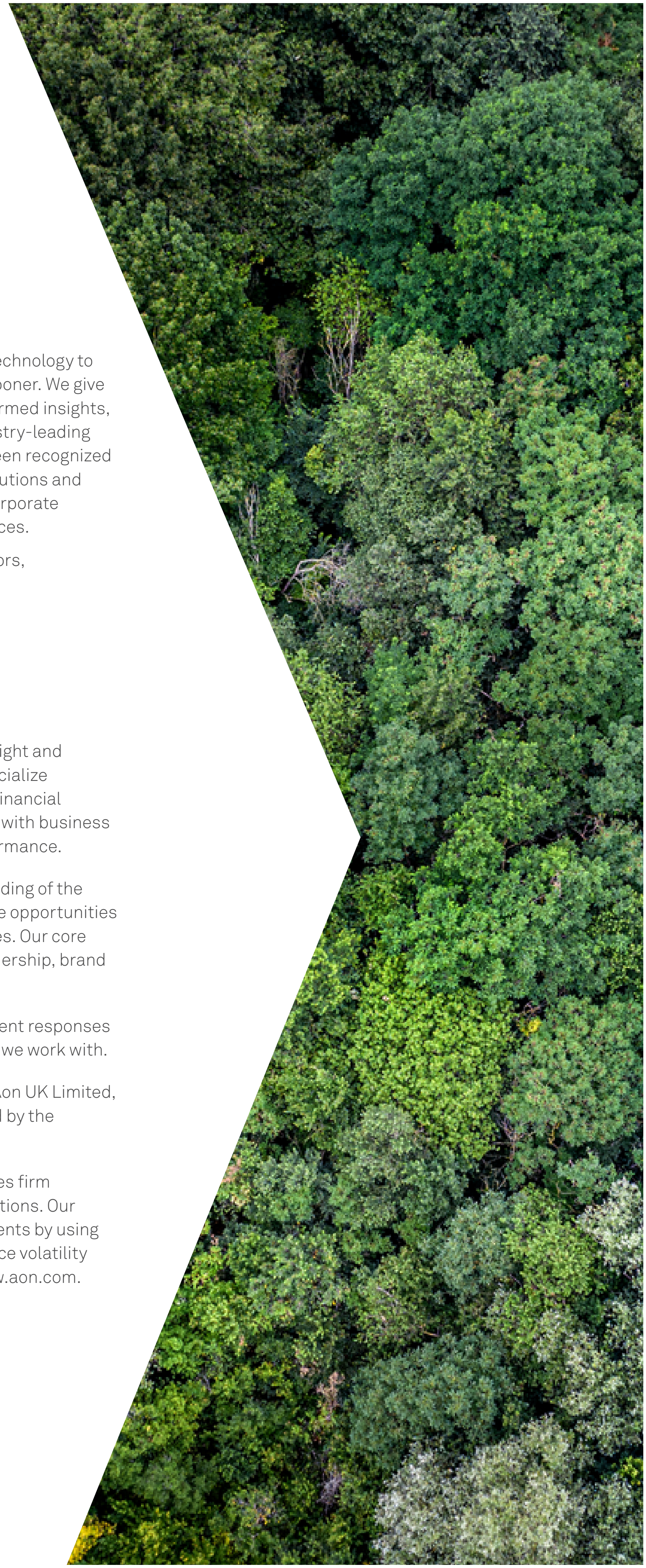

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