

# Developing deeper client relationships through sustainable investing

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*We project a 544% increase in sustainable investing-related media coverage, jumping from 6,456 articles in 2014 to 35,213 (projected) articles in 2019.<sup>1</sup>*

## 3 Key Findings

- 1 Interest in sustainable investing cuts across age and wealth brackets**  
Our research shows the rise of the “values-driven” investor is the emerging view
- 2 Advisor recommendations are critical in the investor decision making process**  
Our research shows that 44% of those who have ever invested in an ESG mutual fund did so because their advisor recommended it
- 3 For ESG-minded investors, the highest levels of interest revolve around environmental concerns**  
Our research shows that 32% of these investors want investments that focus on global warming & climate change

## Sustainable investing enters the mainstream

After several years of steady growth, sustainable investing is now part of the financial mainstream. Coverage of sustainable investing strategies in the financial media has grown exponentially over the past 5 years, as have online searches for sustainable investing terms.

The Business Roundtable, an association of nearly 200 CEOs from the nation’s top companies recently stated that businesses need to shift how they see their own purpose within the larger world. As awareness about climate change, data privacy and other sustainable investing issues increase, companies must evolve to survive in this new environment.

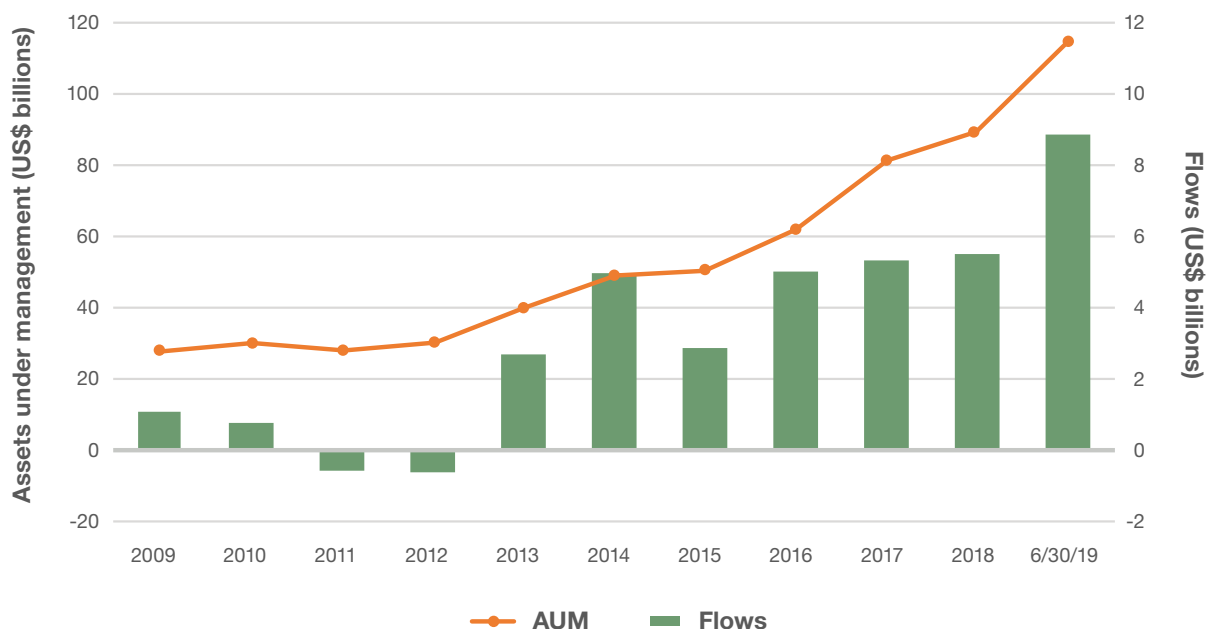
1. This data reflects the volume of media coverage based on a keyword search (“ESG”, “impact investing”, “sustainable investing”, and “responsible investing”) conducted on Factiva, a Dow Jones media research and analytics service. Based on pace of 25,180 articles through August 2019.



INVESTMENTS

Now investors are following through on their interest in sustainable investing by committing assets to ESG strategies. The number of new ESG funds launched in 2018 (both open-end and exchange-traded funds) was at an all-time high. Total assets invested in these types of strategies reached record levels in 2019.

## Sustainable Strategies Have Shown Strong Growth in AUM and Positive Asset Flows



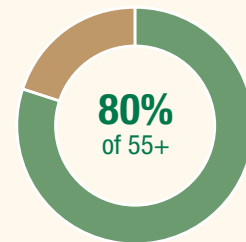
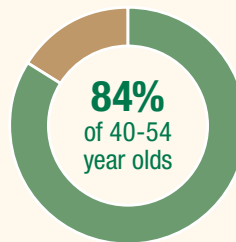
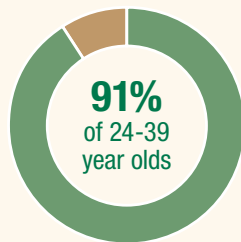
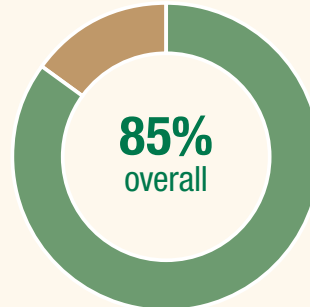
Source: Morningstar, "Sustainable Funds U.S. 2018 Landscape Report," February 2019.

The growth of sustainable investing should come as no surprise. There is broad awareness among consumers of issues related to the environment (climate change, global warming), society (income and gender inequality), and governance (data breaches, corporate conflicts of interest). Moreover, these issues are top of mind with many younger investors (between 25-39 years old) who are entering the prime of their careers and beginning to save and invest for their future financial needs.

There is a perceived generational divide in investor views of sustainable investment strategies—younger investors such as Millennials and Generation X are viewed to care more about the impact of their investments than older investors such as Baby Boomers. But is this perception accurate?

To find out, we surveyed investors across different age, income, and wealth brackets (with a minimum of \$250,000 in investable assets). The results revealed how the perception of sustainable investing differs from reality.

## Investors open to the idea of sustainable investing



Base: Random (503), 25-39 years old (168), 40-54 years old (167), 55+ years old (168) 2i. How likely are you to invest in an ESG mutual fund in the future?

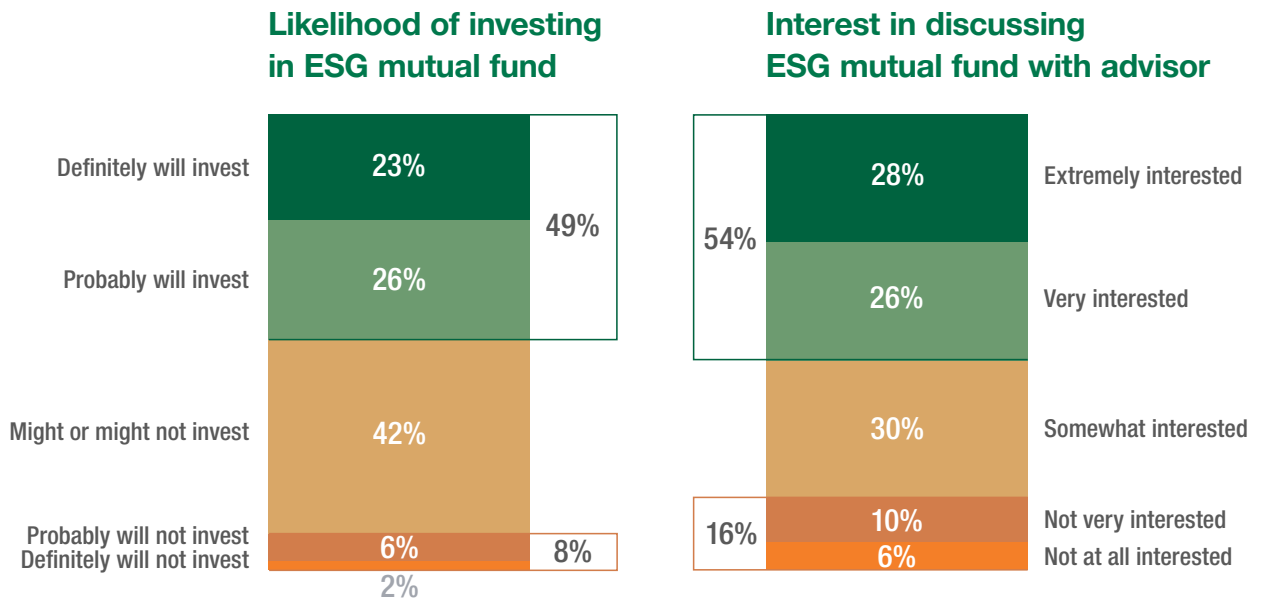
Across age and wealth brackets, investors share an interest in investing for the greater good. For advisors, there's an opportunity to discuss sustainable investment strategies within the broader scope of "values-driven" investing while addressing the wider range of issues that clients are concerned about. Approaching the sustainable investment discussion in the context of your clients' values and beliefs, you can fine-tune the quality of service you offer and strengthen the relationships you are building with clients.

# 1 The rise of the “values-driven” investor

In our view, “values-driven” investors are those who consider specific social concerns or the broader impact of the financial decisions they make. For instance, boycotting a brand or a company for a political stand would qualify someone as a values investor, as would driving a hybrid vehicle or divesting shares of a specific company from a portfolio.

By this definition, more than half of the investor population (53%) would meet the criteria of a “values-driven” investor. More women than men (56% vs. 44%) are values investors, with a median age of 48.5 years. They also have highly diversified portfolios, comprised of 3-4 different asset and product types (e.g., stocks, bonds, mutual funds, ETFs, annuities, etc.).

When taking the broader population of values-driven investors into account, our survey found higher levels of interest in sustainable investing and a greater willingness to discuss these types of solutions with their advisors.

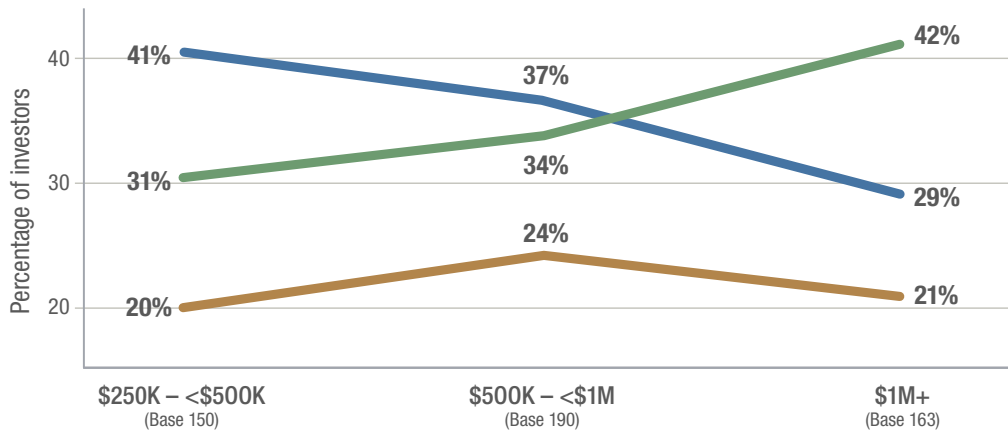


Base: Values Driven Consumer (266). 2i. How likely are you to invest in an ESG mutual fund in the future? 5b. How interested would you be in discussing ESG Mutual Fund investments with your advisor in the future?

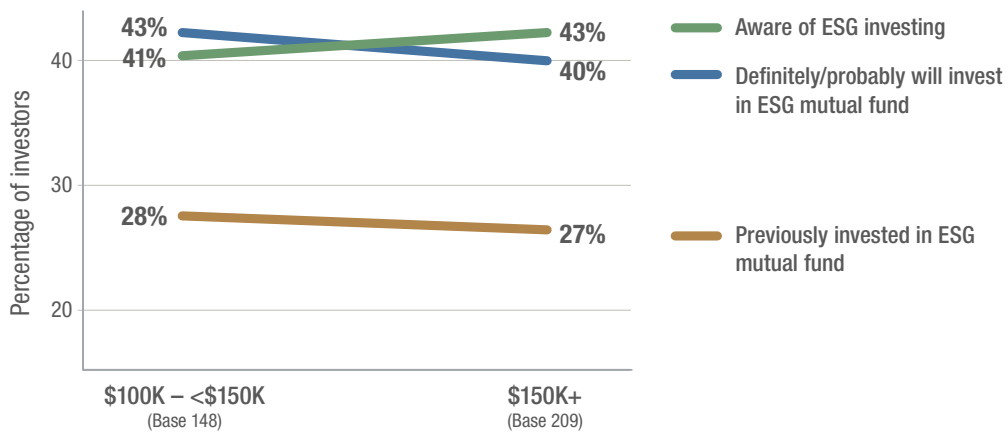
## Higher income and wealth doesn't signify greater interest in sustainable investing

Our survey tracked responses by household income and investable assets. The results showed awareness and acceptance of sustainable investing is roughly equal between income groups. In terms of wealth, awareness of sustainable investing is highest among investors with more assets (over \$1M). While the data shows that less wealthy households show a greater openness to sustainable investments, be mindful that more affluent households may use philanthropy to satisfy their need to align their finances with their values.

### Interest in ESG investing by investible assets



### Interest in ESG investing by investible assets



2c. Have you ever heard of ESG investing (Environmental, Social and Governance), SRI (Socially Responsible Investing) or Impact investing?  
 2e. Have you ever invested in an ESG mutual fund? 2i. How likely are you to invest in an ESG mutual fund in the future?

## ESG underperformance (either actual or perceived) is the biggest obstacle to greater adoption

For investors with little or no inclination to invest in sustainable investment strategies, the most common reason cited is performance. In addition, a significant number of these investors aren't willing to sacrifice returns in exchange for the impact their investment may have on broader environmental or societal concerns.

However, recent returns for sustainable investment strategies are beginning to lower this obstacle. In 2018, a majority of ESG funds ranked in the top half of their Morningstar category for total return. In addition, 41 of 56 Morningstar ESG categories (73%) outperformed their non-ESG counterparts in 2018.

### 41 of 56 Morningstar ESG categories (73%) outperformed their non-ESG counterparts in 2018

All Funds			Equity		Fixed-income		Allocation/alternatives	
Quartile	#	%	#	%	#	%	#	%
Top	83	35%	54	32%	7	18%	22	85%
Second	66	28%	51	30%	12	31%	3	12%
Third	44	19%	33	19%	11	28%	0	0%
Bottom	43	18%	33	19%	9	23%	1	4%

25%                      25%                      25%                      25%

Source: Morningstar Direct. Data as of 12/31/2018.

## 2 Advisor recommendations drive investor decisions to invest in sustainable investment strategies

Your clients have a growing interest in investing based on their personal values and ensuring their investments have an impact on the good of society. They have many resources available to help them learn more about sustainable investments on their own. But as our survey results indicate, you as their advisor, are considered to be their primary source for investment information and recommendations. “Values-driven” investing provides you with an opportunity to enhance your relationships by offering your clients the ability to align their portfolios in a manner that enables them to make an impact on the issues that matter most to them. By opening the discussion about sustainable investment strategies with a focus on values, you can strengthen your existing relationships and lay the groundwork for growing your practice well into the future.

One-third of investors have some level of awareness of sustainable investing. The most common source of information was their advisor. 38% of investors have a strong interest in discussing sustainable investing with their advisors and when “somewhat interested” investors are included, the number jumps significantly to 70%.

A number of factors drive decisions to invest in sustainable investment strategies. Between 40%-50% of these investors want their investments to work for a good cause or align with their values. But a significant number (44%) chose to invest in an ESG fund because their advisor recommended one.

### Reasons for decision to invest in an ESG mutual fund

Base: Ever Invested in ESG mutual fund (110)

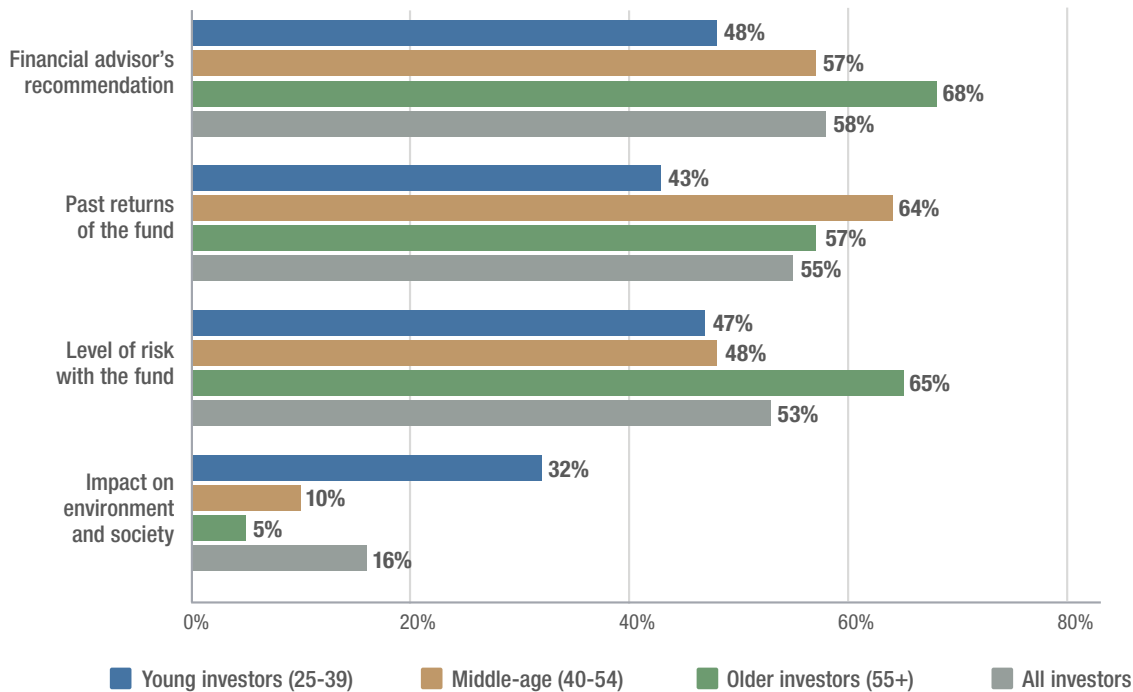


Base: Random (503). 2e. Ever invested in ESG Mutual Fund. 2f. Reasons for investing in ESG Mutual Fund.

## Financial advisor recommendations play crucial role among all age groups in investment decisions

Much of the conventional wisdom about sustainable investing and younger investors is confirmed by our survey—those between 25-39 years old are more likely than older investors to weigh the environmental and social impacts of their investment decisions. But even among younger investors, sustainable investing concerns are not as influential as advisor recommendations and past performance when making investment decisions. In this regard, younger investors tend to reflect the views of the general investor population.

### Key drivers of investment decisions, by age



Base: 25-39 years old (168), 40-54 years old (167), 55+ years old (168). 2b. Taking into account everything you might consider when choosing a mutual fund, which of the following are most important to you?



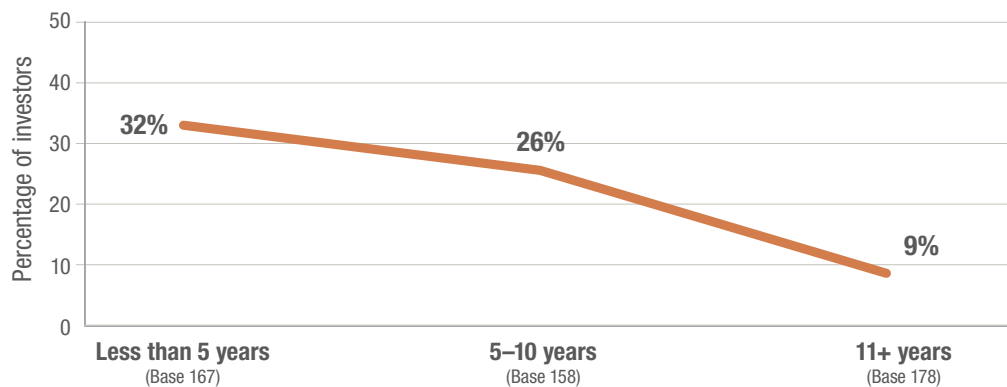
## There is a direct correlation between the length of advisor-client relationships and ESG adoption

ESG adoption appears to be more common when advisor-client relationships are in the early years (less than 5 years.) Clients with longer-term relationships with their advisors (over 11 years) are generally not investing in ESG funds. However, it appears these long-term advisors are taking the traditional ESG view by presenting strategies to younger clients while ignoring their older clients.

*Our survey results revealed a 63% conversion rate from ESG awareness to investment when advisors discuss these types of strategies with their clients.*

### Ever invested in ESG mutual fund

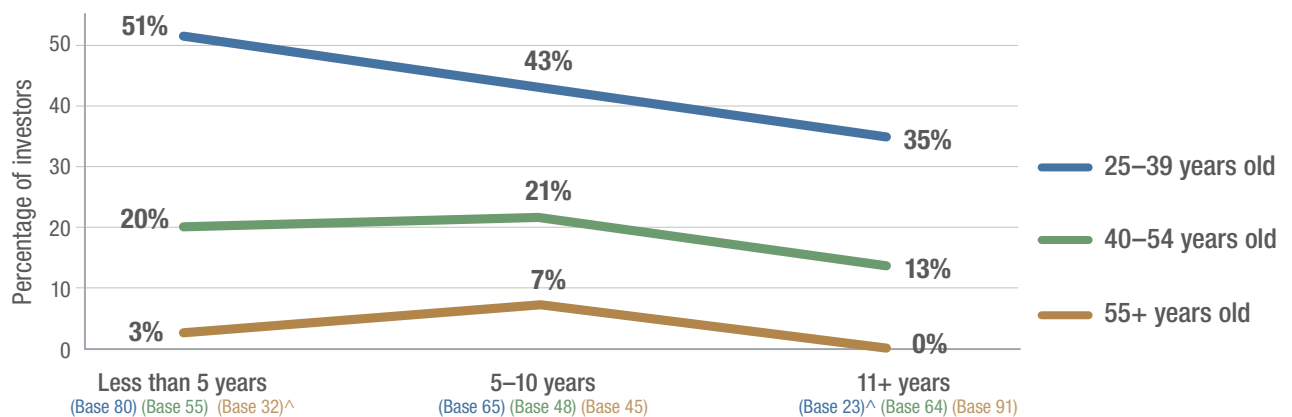
All investors, by length of time working with an advisor



Base: Random (503). 2e. Ever invested in ESG Mutual Fund. 2f. Reasons for investing in ESG Mutual Fund.

### Ever invested in ESG mutual fund

All investors, by age



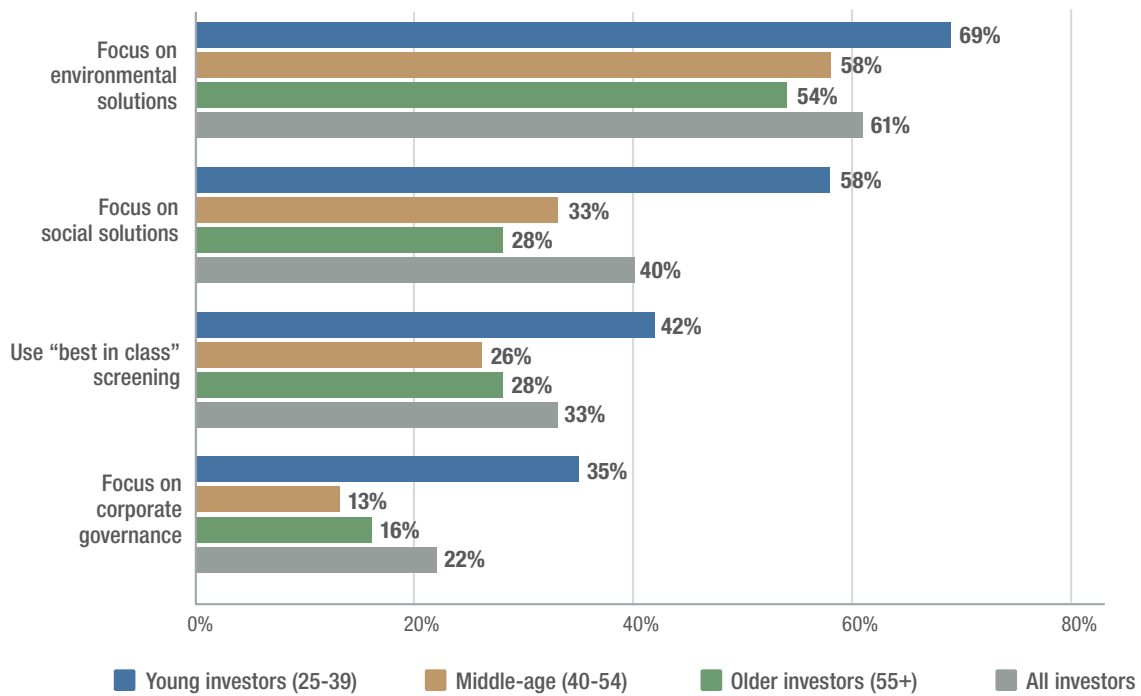
^ Small base, view with caution. 2c. Have you ever heard of ESG investing (Environmental, Social and Governance), SRI (Socially Responsible Investing) or Impact investing? 6e. How long have you been working with your current financial advisor?

Once clients become aware of sustainable investing and the common myths are dispelled, they are more likely to move from consideration to adoption. Our survey results revealed a 63% conversion rate from ESG awareness to investment when advisors discuss these types of strategies with their clients.

### 3 What are ESG-minded investors concerned with?

Investments with a focus on environmental issues were the highest rated of the categories below. It’s also worth noting that there’s a fair amount of interest among these groups in investments that focus on social solutions as well. But digging deeper into the survey results, we see significant interest with older investors as well, just not at the same level. For example, more than half of middle-aged (40-54) and older investors (55+) show interest in investment products with an environmental focus.

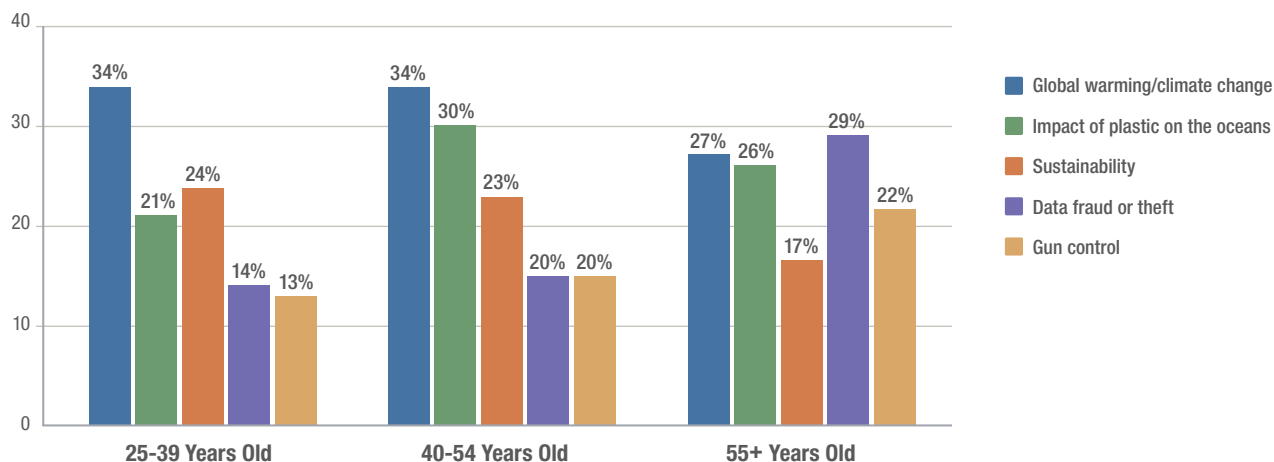
#### Interest in investing in ESG funds



Base: Random (503), 25-39 years old (168), 40-54 years old (167), 55+ years old (168). 2j. What would you be interested investing in?

When we look closer at the broad categories shown on the previous page, we see that younger and middle-aged investors see global warming and climate changes as top ESG concerns. This is not surprising given that younger generations are more likely to experience the consequences of these long-term issues. Among older investors (55+), environmental and sustainability issues are important, but more immediate concerns such as governance issues related to data fraud and security breaches, are their highest priority.

## Issues investors want addressed by sustainable investments



Base: 25-39 years old (168), 40-54 years old (167), 55+ years old (168)

The results of our survey challenge the traditional view of sustainable investing. What emerged from the data is a broader picture of investors who share strong beliefs about the high-profile issues of the day and show a desire to align their investments with the values they hold.

## For your consideration:

### Broaden your understanding of sustainable investing using the following educational resources:

- New York Life Investments sustainable investment guides: [morethaninvesting.com/practicemanagement](https://www.morethaninvesting.com/practicemanagement)
- Candriam Academy, an accredited online training tool: [morethaninvesting.com/esgacademyus](https://www.morethaninvesting.com/esgacademyus)
- Sustainable Investment Forum/Bloomberg's screening and advocacy tool that aligns your client's values with their investment options: [charts.ussif.org/mfpc](https://charts.ussif.org/mfpc)

### Use your client conversations to gain a deeper understanding of what they deem to be most important.

- Look for clues by asking your existing clients about their passions and interests
  - Ask: *Are you involved in your community?*
- Connect with your existing client's family
  - Invite the whole family (including children) to your next meeting
- During your next quarterly client meeting, be direct about this topic
  - Ask: *What environmental or social issues are important to you?*
- Once you understand your client's values, is there opportunity for portfolio alignment?
  - Advise your client that there are strategies available to align their portfolio with their values

**Contact your New York Life Investments advisor consultant for product and planning resources you can easily present to your clients or request additional support for your client conversations at 888-474-7725.**

## ABOUT RISK

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against a loss in a declining market.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

## DEFINITIONS

**ESG** is an investment approach that considers the environmental and social impact of a company's actions, along with the company's corporate governance structure and activities. Often features an inclusionary approach that aims to invest in companies with positive factors.

## SOURCE

Insights presented in this report are derived from a 2019 study conducted by NY Life Investments in partnership with RTi Research. RTi Research is a market research company that turns data into meaning, so you can communicate your insights simply and act on them effectively. RTi Research is not affiliated with New York Life Investments.

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The study employed both qualitative and quantitative methods to determine the degree of importance investors place on environmental, social and governance issues and how these issues impact their investment decisions in the U.S. (Sample size: N=594).



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