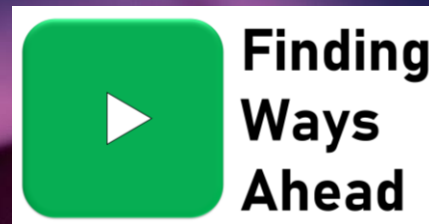# Accomplish®

Because actions speak louder than words

ESG-related client behaviors
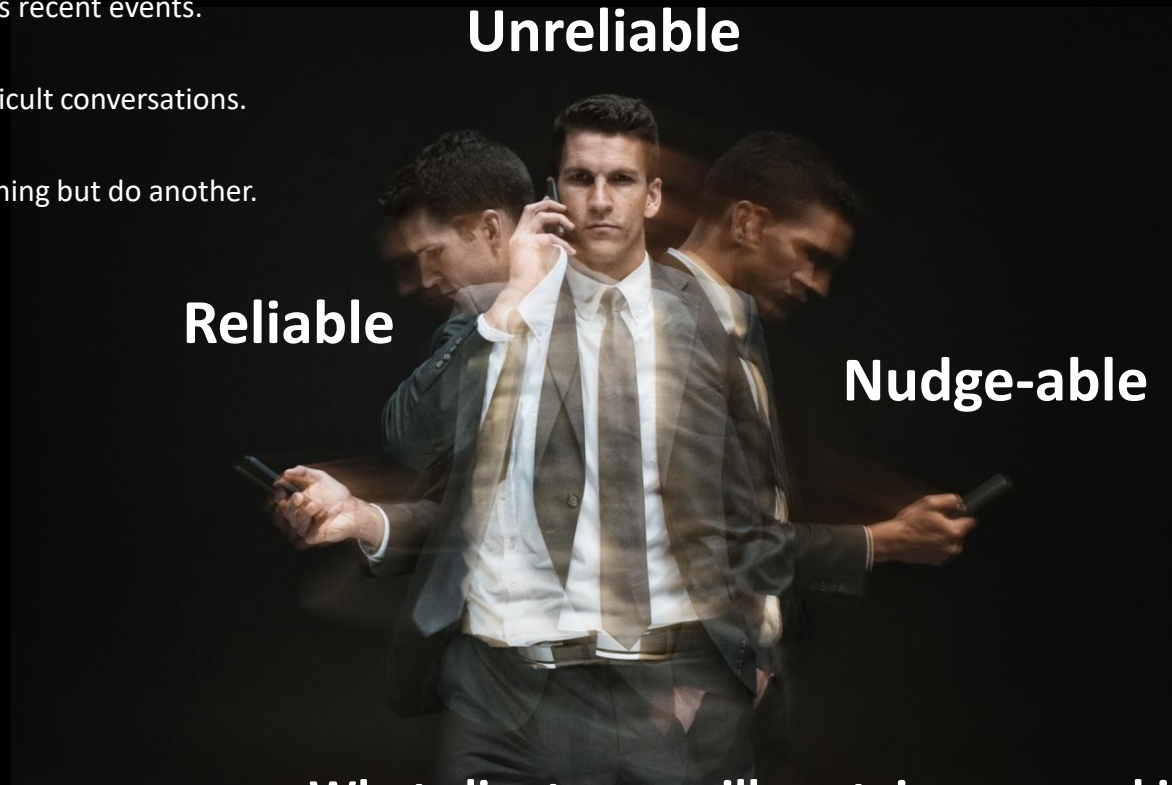
Manage your effect on whether clients buy, stay, and buy more

Client behavior
is the reliable indicator

▬▬ ▬ ▬ ▬

Client feedback is a personal appraisal that rests on uncertain grounds

✗   We forget less recent events.

✗   We avoid difficult conversations.

✗   We say one thing but do another.

Unreliable

Reliable

Nudge-able

What clients say will contain gaps and inaccuracies

A statistically valid sample of asset managers

A good sample size. A broad cross-section of the global buy-side industry.

1	✓	abrdn
2	✓	AEGON Asset Management
3	✓	Allianz Global Investors
4	✓	American Century
5	✓	Amundi Asset Management
6	✓	APG Asset Management NV
7	✓	Aviva Investors
8	✓	BlackRock
9	✓	BlueBay Asset Management
10	✓	BNP Paribas Asset Management
11	✓	Candriam
12	✓	Columbia Threadneedle Investments
13	✓	Dimensional Fund Advisors
14	✓	Federated Hermes
15	✓	Fidelity International
16	✓	Fiera Capital
17	✓	Gresham House Asset Management
18	✓	Impax Asset Management
19	✓	Invesco Fund Management
20	✓	J O Hambro Capital Management

21	✓	J.P. Morgan Asset Management
22	✓	Janus Henderson Investors
23	✓	M&G Investments
24	✓	Natixis Investment Managers
25	✓	Newton Investment Management
26	✓	Northern Trust Asset Management
27	✓	Nuveen
28	✓	Partners Capital
29	✓	PGGM
30	✓	PGIM
31	✓	RBC Global Asset Management
32	✓	Robeco Asset Management
33	✓	Royal London Asset Management
34	✓	Schroder Investment Management
35	✓	SEI investments
36	✓	State Street Global Advisors
37	✓	Sycomore Asset Management
38	✓	T. Rowe Price
39	✓	Vanguard
40	✓	Wellington Management International
41	✓	WHEB Asset Management

Clients' ESG-related behaviors depend on their experience, and some of them are more common than others.

Key points

- In Q2 2022, asset management firms reported the ESG-related behaviors they observed in institutional and intermediary clients from around the world.

- The behaviors fell into 9 categories, with clients displaying behaviors from multiple categories.

- Significantly, asset managers saw different behaviors as indicators of a client's level of experience of ESG.[1]

- Some behaviors were reported more often than others, e.g. almost every asset manager encountered an appetite in clients for ESG data.

Primary research

- Data gathered directly from observers of client behavior.

- In-depth analysis and testing of a new framework.

- Peer review scrutiny.

The proportion of asset managers who reported these behaviors in clients 'today'

Behavior	Proportion
1. The cry for help	41%
2. Scene setting	71%
3. Using standards as short-cuts	78%
4. Tell us how you do it	85%
5. Appetite for new data	98%
6. Convince us you've got this	78%
7. ESG as an investment capability	78%
8. We want to do it our way	66%
9. Are you walking the talk?	34%

Client's level of experience: Low → High

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1. **Client's level of experience** – 73% of participating asset managers said that client behaviors depended on their level of experience with ESG. They used words like "more or less sophisticated / experienced." We have ordered the categories accordingly.

Their behaviors fall into nine categories, with clients displaying behaviors from multiple categories.

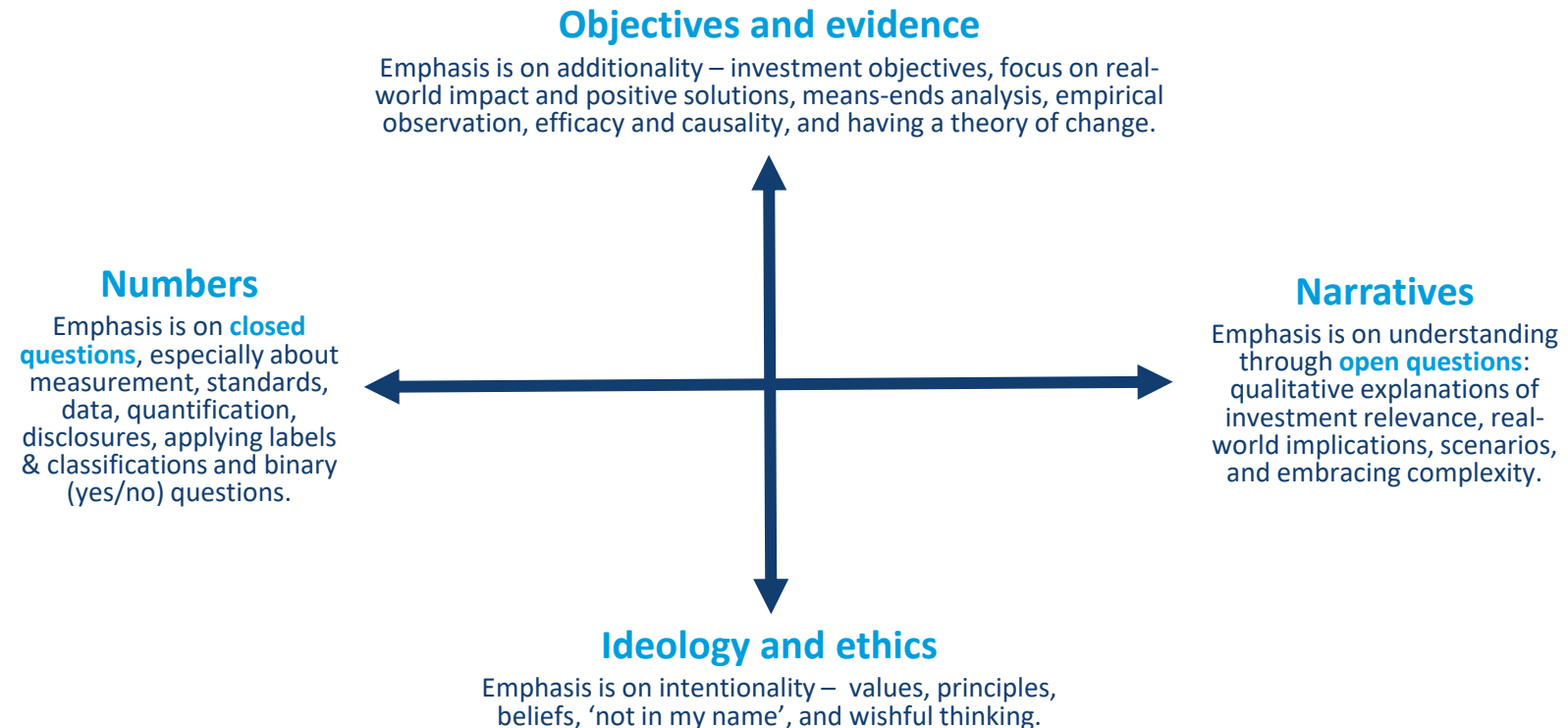| Category	Description
1. The cry for help	The desire for **basic information and support** because they know they do not understand ESG. Behavioral reactions to new regulatory obligations. Others imply an appetite for understanding the justification for ESG investing.
2. Scene setting	Numbers-oriented **fact-gathering: often closed questions** that force a yes / no answer, or require a number, or a label. They indicate clients' basic expectations, but leave little room for exploration, e.g. "how many people are in your ESG team?"
3. Using standards as short-cuts	Next came another group of closed questions that saw clients use international **frameworks as decision-making expediencies**, for example, non-EU clients using EU classification system as a short-cut to describe their needs.
4. Tell us how you do it	In this category, clients sought to **understand how** you invest in line with the principles of ESG. The assumption was that ESG is already at an end-state.
5. Appetite for new data	These behaviors highlight the nature of demand clients expressed for portfolio and security-level data – focus on **disclosure of numbers**.
6. Convince us you've got this	As clients became more experienced, they sought **evidence and examples** that the asset manager had analysed their data, could explain investment-relevance, and had acted accordingly.
7. ESG as an investment capability	This category of behaviors sees clients employing **ESG as an integral component of investment management**: using ESG as a factor to identify investment opportunities, assess risks, and define objectives that will bring about change.
8. We want to do it our way	The common factor across these behaviors is the client's desire to **pursue their own objectives** and impact the world in their own way.
9. Are you walking the talk?	These behaviors saw clients turn the **onus on the asset manager** to explain their own ESG-related commitments and how they are living up to them?

Low → High (Client's level of experience)

Introducing a model for interpreting ESG-related client behaviors

Walkate's Today / Tomorrow model

- In consultation with colleagues from the University of Zurich CSP, Walkate has created the Today / Tomorrow model.
- The model asserts that organizations balance two choices when they decide where to focus on ESG:
  - Objectives and evidence vs ideology and ethics.
  - Numbers vs. narratives.
- Accomplish used it to interpret it's data about ESG-related client behaviors.

Objectives and evidence

Emphasis is on additionality – investment objectives, focus on real-world impact and positive solutions, means-ends analysis, empirical observation, efficacy and causality, and having a theory of change.

Numbers

Emphasis is on **closed questions**, especially about measurement, standards, data, quantification, disclosures, applying labels & classifications and binary (yes/no) questions.

Narratives

Emphasis is on understanding through **open questions**: qualitative explanations of investment relevance, real-world implications, scenarios, and embracing complexity.

Ideology and ethics

Emphasis is on intentionality – values, principles, beliefs, 'not in my name', and wishful thinking.

In general, "less experienced" clients focus more on numbers and ideology

Objectives & evidence — **Numbers** / **Narratives** — **Ideology and ethics**

Less experienced clients

Category	#	ESG-related client behavior	Objective or evidence-driven?	Qualitative?	Open or closed question?
1. The cry for help	1.1	Help us comply, e.g. SFDR, EU taxonomy.	No	No	Closed
	1.2	How could our investments support the SDGs, and why should we?	Yes	Yes	Open
	1.3	Could you run a training session for us?	No	Yes	Closed
2. Scene-setting questions	2.1	What are your ESG funds, ESG AUM, ESG team, structure and governance?	No	Yes	Closed
	2.2	What are your policies, e.g. ESG, sustainable investing, climate change, exclusions, and voting?	No	Yes	Closed
	2.3	When will you be ready for XXX new ESG regulation?	No	No	Closed
3. Using standards as short-cuts	3.1	Have you signed-up to … UN PRI, TCFD, UN Global Compact, Paris, NZAMI, GRESB, GFANZ, UK SC, etc.?	No	No	Closed
	3.2	What is the fund's SFDR article, justification, disclosures?	No	No	Closed
	3.3	What SDGs does the portfolio contribute to, in what proportions, and why?	Yes	Yes	Closed
	3.4	Is the product aligned with Paris, European Green Deal, Net Zero?	No	No	Closed
	3.5	Can you give us TCFD, SFDR, the EU Taxonomy, or UK PLSA stewardship and voting data?	No	No	Closed
	3.6	Second-order effects of standards, e.g. non-EU clients using SFDR terminology to select products.	No	No	Closed
4. Tell us how you do it	4.1	How do you analyse companies, identify ESG risks, and across which strategies and asset classes?	No	Yes	Open
	4.2	ESG and investment team responsibilities? How estimate returns? How make investment decisions?	No	Yes	Open
	4.3	How do you engage and vote?	No	Yes	Open
	4.4	How do you set, measure, monitor and report on ESG objectives?	Yes	Yes	Open
	4.5	Can you give us examples of investments you rejected?	No	Yes	Open
5. Appetite for new data	5.1	ESG ratings, exposure targets, KPIs, exclusions, SFDR Principle Adverse Impact indicators.	No	No	Closed
	5.2	Climate data – CO_2 footprint and intensity, energy mix, carbon credits, risks (biodiversity, water, waste), external certifications, timeframe for delivering net zero carbon.	No	No	Closed
	5.3	DE&I – gender and ethnicity of portfolio and holdings.	No	No	Closed
	5.4	Progress towards goals, e.g. UN SDGs, Paris-alignment, net zero.	No	No	Closed
	5.5	Exposure to topical issues, e.g. the war in Ukraine.	No	No	Closed
	5.6	Voting and engagement volumes, statistics, and activities, e.g. top 5, or 10.	No	Yes	Closed
	5.7	Human or labour rights issues relating to any holdings.	No	Yes	Closed

Less experienced clients

In general, "more experienced" clients also focus on narratives and objectives

Category	#	ESG-related client behavior	Objective or evidence-driven?	Qualitative?	Open or closed question?
6. Convince us you've got this	6.1	How analyse a company, treat findings, estimate investment decision's impact, e.g. on CO2 emissions?	No	Yes	Open
	6.2	How do you avoid the risk of greenwashing?	No	Yes	Open
	6.3	How did you engage a company, what ESG factor(s) drove your voting, and what impact did you achieve – investment objective, risks, progress, successes, failures, divestment assessments, and implications?	Yes	Yes	Open
	6.4	What's your position on a current debate or event, what is your investment objective, did you expect this, why not, can you get me out, e.g. child labour concerns in the EV battery supply chain?	Yes	Yes	Open
	6.5	Explain the difference between your ESG score vs. an external benchmark.	No	Yes	Open
	6.6	Requests for forward-looking scenario analysis and the risk and investment implications.	Yes	Yes	Open
7. ESG as an investment capability	7.1	What proportion of your investment approach incorporates ESG factors, and what are they?	No	Yes	Closed
	7.2	What is the ESG impact across 1) AUM, 2) securities, sectors, markets, 3) SDGs, and 4) risks and returns.	Yes	No	Closed
	7.3	How do you calculate your ESG metrics and define materiality?	Yes	Yes	Open
	7.4	What would returns have been if you had not adopted ESG factors?	Yes	No	Open
	7.5	Investment opportunities and risks from the transition to a lower carbon economy?	Yes	Yes	Open
	7.6	How reduce CO2 footprint without impacting performance? Which are the most investible CO2 markets, how do it, and what are the risks? How can we avoid political risk relating to Net Zero?	Yes	Yes	Open
8. We want to do it our way	8.1	We want to invest in a way that meets our own objectives and ambition, e.g. beats a certain carbon benchmark, targets a specific SDG, or brings about a desired impact in a certain industry.	Yes	Yes	Open
	8.2	Can you customize your ESG investment and reporting processes to help us meet our objective(s) in line with our brand, values, and investment restrictions?	Yes	No	Closed
	8.3	Do you collaborate on engagement and voting intentions?	No	Yes	Closed
	8.4	Help us frame our investment thesis: how should we consider investment risk in relation to sustainability, or how can we lower our portfolio emissions without reducing factor biases?	Yes	Yes	Open
9. Are you walking the talk?	9.1	What are your own commitments?	No	No	Open
	9.2	What are your science-based targets?	No	No	Open

More experienced clients

Potential for a change in demand for ESG-related investment propositions

Emphasis of clients' current ESG-related behaviors

Objectives and evidence

Numbers

Could these areas become hygiene factors?

More experienced clients

Narratives

Direction of travel

Less experienced clients

Client behaviors indicate demand, so you should align your ESG investment proposition with the direction of travel.

Ideology and ethics

Key findings

- Depending on the extent of their experience of ESG, clients occupy different positions in the model.

- This implies that ESG-related client behaviors do not have to be static, but can and do evolve as they gain experience.

Hypothesis

The general direction of travel will be diagonal:

- Clients will not depart the bottom-left quadrant. More plausibly, they will move up the diagonal.

- Firms will need skills and budget to serve the needs of greater volumes of experienced clients, and their product strategies may also need to evolve.

- This will present strategic opportunities and threats for asset management firms, and we encourage them to perform a SWOT analysis against page 8.

Discussion   London Business School 28 Sep 2022

- Are the research findings recognisable, relevant, and valid?

- Which aspects of a market in which more experienced client behaviors will become more prevalent will present opportunities vs threats?

Debate the implications

ESG-related client behaviors – seminar

Hosted at
London Business School

Will it be an opportunity or threat for your firm if demand for ESG investments shifts?
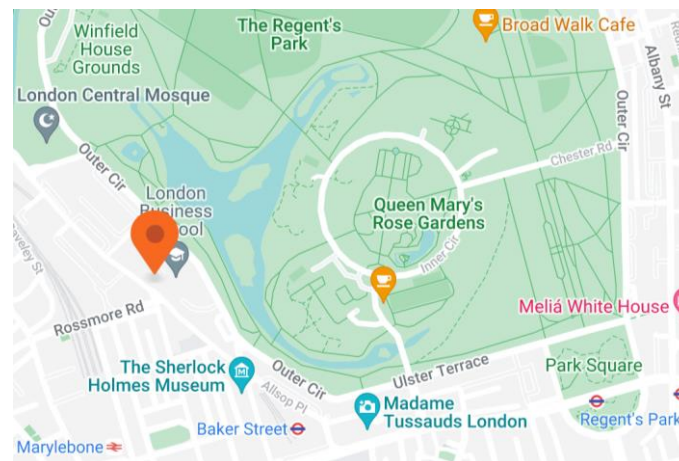
- Learn about the current and future ESG-related client behaviors from **Harald Walkate** (Senior Fellow, University of Zurich CSP) and **Adam Grainger** (manages the asset management Behavioral Benchmark).

- Discuss their implications with representatives from 41 investment firms.

  - Facilitator – **Tom Gosling**, Executive Fellow, London Business School.

  - Panel

    - **Ashley Hamilton Claxton**, Head of Responsible Investment at Royal London Asset Management.

    - **Gabriëlle Krapels** (Ph.D), Head Fiduciary Management Responsible Investments, APG Asset Management.

    - **Jim Whittington**, Head of Responsible Investment, Dimensional Fund Advisors.

  - Chatham House Rules. No recording.

- **Contributing firms only**.

- There is **no charge** for this event.

- 14:00 – 16:00 (UK) **Wednesday 28 September** at London Business School, 72 Park Road, London, NW1 4SH, UK.

- **Drinks reception** – network afterwards with heads of ESG.

Register to join in-person or virtually

The **✓Accomplish**® Client Behavior Benchmark

⚡ **Problem**: client feedback contains gaps and inaccuracies.

💡 **Solution**: behavior is definable, observable, measurable.

✓ **Developed by an <u>industry-wide R&D initiative</u>**:

- Institutional client behavior: the Americas, EMEA, Apac.
- Out- and under-performance across the client journey.
- Three levels of insight come 'as standard'.

✓ **Exploit existing data to discover your effect on**:

- Whether clients buy, stay, and buy more.
- The leading behavioral indicators you can stimulate.

✓ **Typical buyers** shape distribution strategy: Heads of Client Insights, Marketing Directors, Client Engagement leads, and Business Managers.

Use cases

Measure the performance of your client engagement

Use cases

1 Identify weaknesses in your client journey and fix them with nudges.

2 Keep your sales funnel as wide as possible for as long as possible.

3 Quantify the revenue impacts of the behaviors you stimulate in clients.

4 Set targets: sales conversion, client tenure, and products per client.

5 Respond quickly to changes in client behavior.

Manage your effect on whether clients buy, stay, and buy more

Research leads

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Accomplish Purpose-built through research ✓ Command of the latest data ✓ Relevant. Brief. Gone. ✓