



Capital Partners

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The changing landscape of ESG and sustainable investing

A survey of investors in alternatives

“Should we be reassured that just over half of all investors have a climate change policy in place, or should we be concerned that just under half still do not?”

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Introduction and scope of the survey

The landscape for ESG and sustainable investing is in a continuous state of flux. From its origins in the socially responsible investment (SRI) movement of the 1980's and 1990's to the well-established investment frameworks of today, change has been the one constant. In order to understand the direction of travel, we at LGT Capital Partners (LGT CP) have been surveying institutional investors on this topic since 2015, with our first study "Global Insights on ESG in Alternative Investing."

We followed up with a second study in 2019, "From ESG to SDGs—the Road Ahead," where we broadened the scope from ESG to include the Sustainable Development Goals (SDGs), reflecting the industry's move toward greater focus on investment outcomes. Now, in 2022, we are pleased to present the findings of our latest survey of 230 participants from 28 countries, who invest in private equity, real estate, private debt, infrastructure and hedge funds. We have again broadened the scope of topics covered to include diversity and inclusion (D&I), one of the fastest-moving areas in ESG. We have also done a deeper dive into climate change to learn more about investor priorities for one of the world's most urgent problems.

Since we have a sample set that is directly comparable to our 2019 study, we can measure changes in thinking over the last three years. This allows us to look closely at how, for example, the industry now perceives the SDGs, which were just starting to resonate with alternative investors in 2019. As with the previous

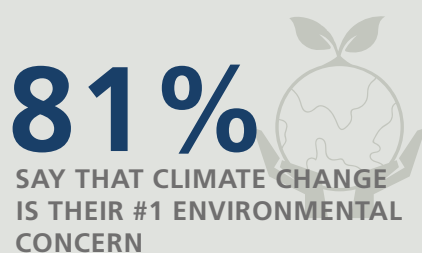
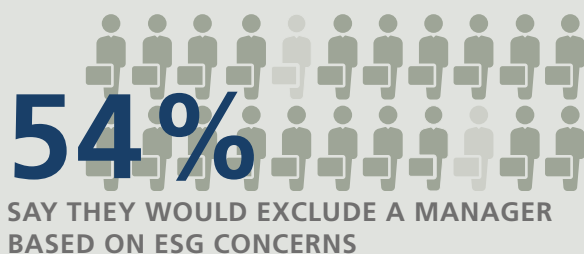
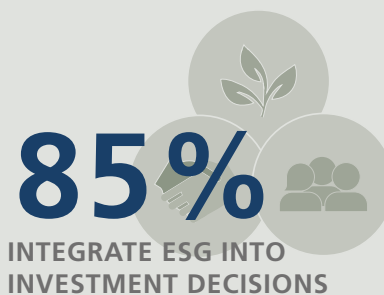
two studies, we asked investors about their beliefs, motivations and practices around ESG, which are still evolving, as the data shows. This spans from beliefs about ESG and risk-adjusted returns to efforts to embed ESG factors into financial reporting.

Finally, we have expanded our analysis of the data to identify six ESG archetypes – Skeptics, Contradicters, Sacrificers, Newbies, Movers and True Believers – which describe the way most investors engage on ESG. With our comparison to the 2019 results, we can see how these groups have shrunk or grown over the last three years.

Some of the key questions we explore in the survey are:

- To what extent do investors take D&I into account in their investment decision-making?
- What are the main climate change metrics that investors use to guide investment decisions?
- How satisfied are investors with SDG adoption within the industry?
- How relevant is ESG when appointing or excluding an investment manager?
- Which ESG archetype has grown the most as a group in the last three years?

We invite you to read on to learn more about these topics, and we look forward to discussing them in the months to come.



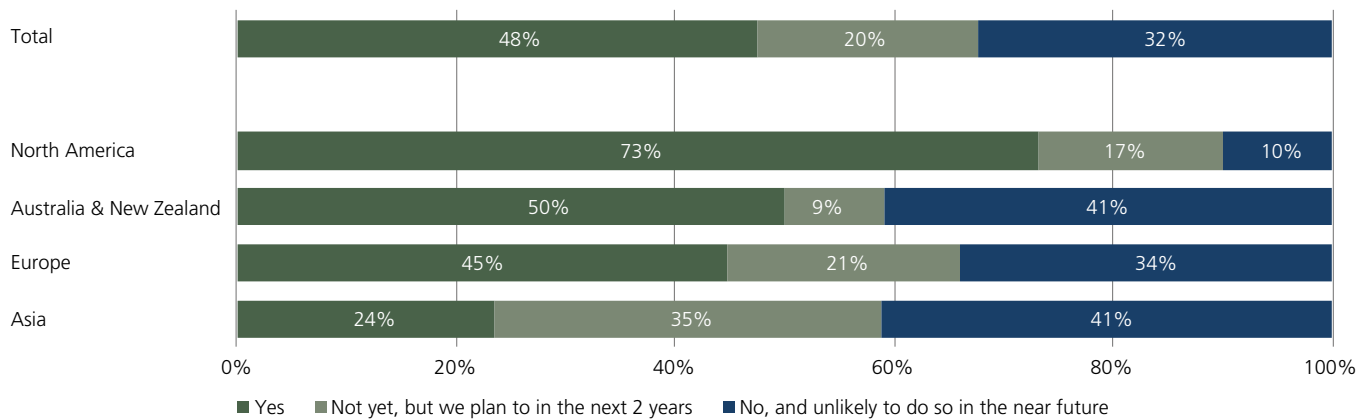
Diversity and inclusion (D&I)

D&I has increased in importance in many regions around the world in recent years, as companies have recognized the importance of a workforce that reflects the full set of talents available in their local communities. Investor interest has also grown, driven by a desire to optimize performance, as well as to meet stakeholder expectations on social inclusion. The topic gained even more traction in the media following the May 2020 police killing of George Floyd, an African-American man in Minneapolis, which sparked a series of protests in solidarity across the globe. The continued high profile of these issues has resulted in increased scrutiny of D&I in all sectors, including asset management. We asked investors a range of questions in order to better understand how they are responding to these global changes.

Diversity and inclusion policy

We started by asking whether the investor’s organization has a D&I policy of any kind. Such policies can vary widely, with some focusing exclusively on the investor’s own team, while other policies also include provisions related to investment decision-making. Of the total respondents, nearly half (48%) stated that they have a D&I policy in place (Figure 1), 20% said they intended to implement one in the next two years, and 32% said that they had no plans to do so. These numbers differed greatly when analyzed by region. For example, in North America, 73% of investors already have a policy in place, compared to just 24% in Asia, with Europe roughly in the middle at 45%. This suggests that investors in different regions are at very different stages of the journey to incorporate D&I into their businesses.

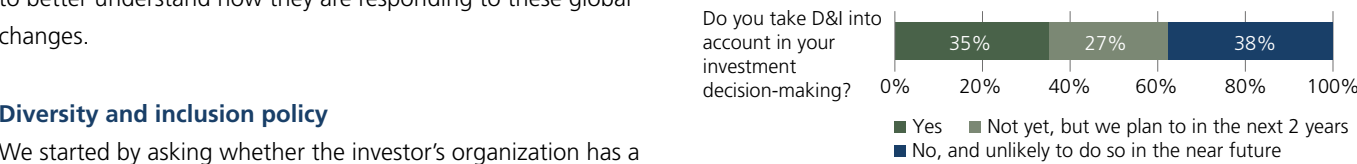
Figure 1: Does your organization have a diversity and inclusion (D&I) policy in place?



Influence of D&I on decision-making

We then narrowed the focus by asking about how D&I factors influence investment decision-making. This is a topic that many large asset allocators, especially government pension funds in the English-speaking world, are increasingly emphasizing when placing capital. Just over a third of respondents (35%) stated that they take D&I factors into account in their investment decision-making (Figure 2), with a further 27% stating they plan to in the next two years.

Figure 2: Do you take D&I into account in your investment decision-making?



We narrowed the focus even more by asking whether investors had ever declined a manager on D&I grounds. This is a way of checking whether formal policies actually get translated into concrete portfolio actions. We would not necessarily expect there to be a one-to-one correspondence between the two sets of answers, as it is probably uncommon to exclude managers based mainly on D&I factors. Nevertheless, we do believe that the size of the delta between the two sets of answers reveals something about the importance of D&I in day-to-day investment decisions.

In our survey, 7% of investors stated that they have excluded managers on D&I grounds, while the largest proportion (56%) stated that they had not, but would do so, if required. The remaining 37% stated that they have not excluded managers for D&I reasons and would be unlikely to do so in the near future. Overall, this suggests that 63% of investors show a willingness to put theory into practice with incorporating D&I. This is roughly in line with those that already feel they take D&I into account or plan to do so (62%) and with the proportion who have a policy in place or intend to do so (68%).

We see significant regional variation in the willingness of investors to decline a manager on D&I grounds. The majority of respondents in North America and Australia and New Zealand stated they had taken action, or would if required (both at 77%), with a somewhat smaller majority in Europe (61%) saying they would do so. Interestingly, Asia had the highest proportion of respondents who had taken action on these grounds (12%) but also the highest overall proportion of those that would be unlikely to do so (53%).

Drivers to incorporate diversity and inclusion

In addition to learning about how D&I factors into investor policies and decision-making, we wanted to find out which

pressures were strongest in driving organizations to incorporate D&I. When asked to rank the key drivers in order of importance, respondents revealed a number of clear priorities (Figure 4). Better decision-making leads the way by a clear margin, followed by ethical objectives and reputational concerns. The high relative score of better decision-making suggests that organizations see the benefit of diversity and inclusion in making safer and sounder investment choices and in helping avoid the pitfalls of “groupthink.”

Although regulation scores significantly lower than these other drivers, this is perhaps because D&I has not yet received the same level of focus in recent regulatory changes when compared to considerations such as climate change. This could change in the next few years if more regulators around the world follow the example of UK authorities. In a recent joint publication by the Bank of England and the Prudential Regulation Authority (“PRA”), the regulators stated their aim to “accelerate the pace of meaningful change on diversity and inclusion in the sector.”

Figure 4: To what extent do the following considerations drive you to incorporate D&I?

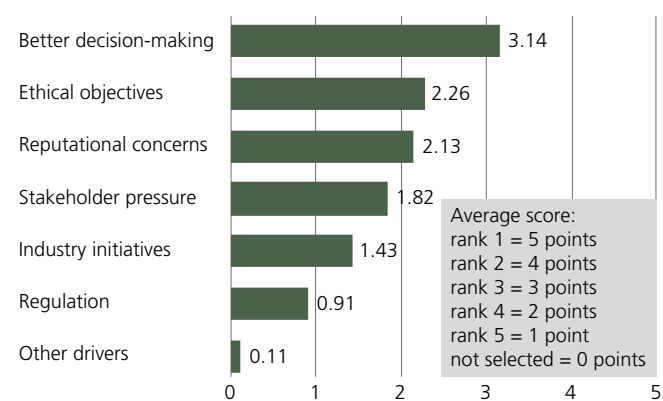
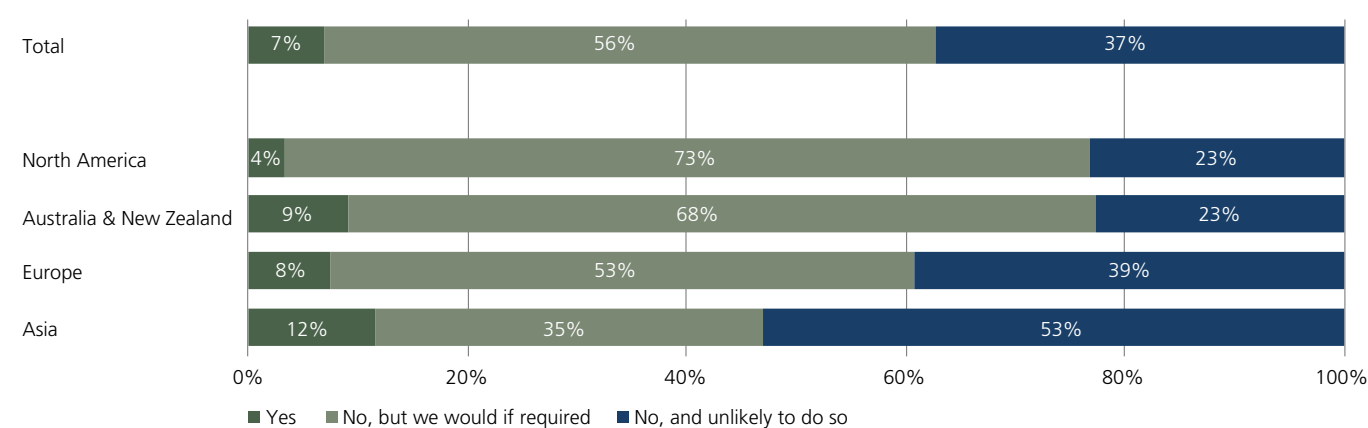


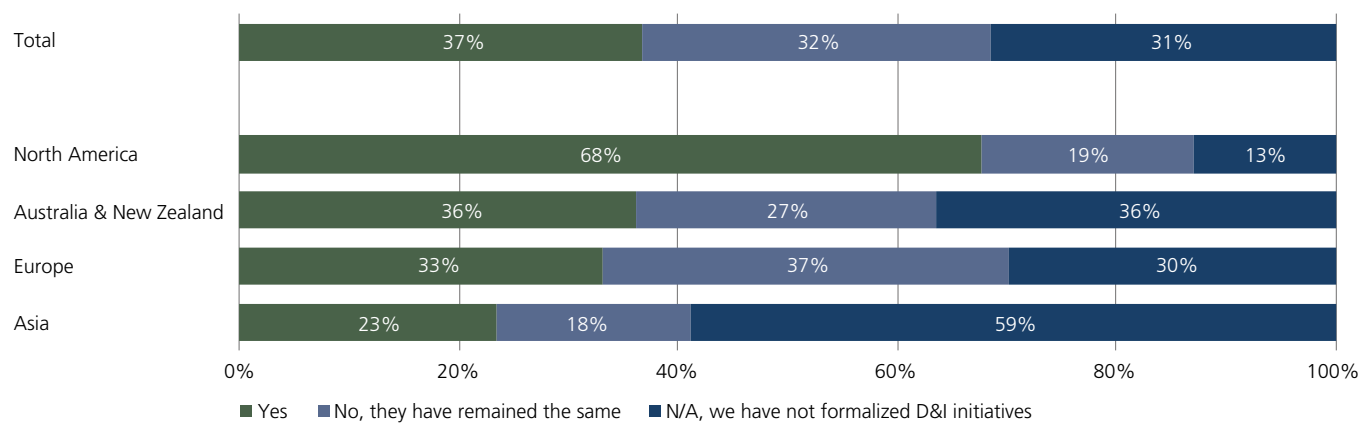
Figure 3: Have you ever declined a manager on D&I grounds?



Recent efforts and looking to the future

We also wanted to get a sense of the expected pace of change in how investors are approaching D&I, so we asked whether they had increased their efforts to promote D&I in the last year (Figure 5). Although the total proportion who responded in the affirmative is perhaps lower than we might expect, at only 37%, the regional splits show that there are notable differences between the regions. For example, in North America 68% of respondents stated that they had increased their efforts in this area compared to just 23% in Asia. North America appears to be leading the way in terms of respondents’ attitudes towards D&I, but the results of this series of questions suggest that we are still in the early stages of this issue being integrated into investment decision-making.

Figure 5: Have you increased your efforts to promote D&I in the last year?



Climate change

Policies for addressing climate change in investment decision-making

Climate change has become one of the most important issues facing people and planet. It is much discussed in popular media and is increasingly affecting government policies and business practices around the world. Given this importance in wider society, we wanted to find out how investors are responding to the challenge of climate change.

We observe that a majority of investors (52%) have a climate change policy in place (Figure 6), with another 36% planning to implement one in the next two years. Only a small minority of investors (12%) have no plans to address the topic in the near future. Europe is leading the way in introducing climate change policies, with 63% stating they already have a policy in place and a further 31% intending to do so in the near future. North America has the smallest proportion of respondents with a policy in place, at just 23%. However, 42% of the respondents from North America stated that they intend to introduce a policy soon.

Given the urgency to act on climate change, as described in the most recent Assessment Report from the Intergovernmental Panel on Climate Change (IPCC), it begs the question of whether investors are acting fast enough.¹ Should we be reassured that just over half of all investors have a policy of some kind in place, or should we be concerned that just under half still do not? It somewhat depends on the actions of the 36% who plan to have a policy in place within the next two years. If those plans are realized, the vast majority of investors will be addressing climate change by 2024.

Commitment to net zero and how managers integrate environmental metrics into decision-making

We asked investors whether their organizations had committed to net zero emissions in their portfolios to find out the extent to which investors have concrete goals for combating climate change through their investment decisions. We find that 29% of respondents overall have committed to a net zero initiative (Figure 7), with a further 34% indicating that they plan to in the next two years, while 37% said they have no plans to do so.

In the last few years, we have seen increasing pressure on financial institutions and other industries to commit to net zero initiatives, such as the UN-backed Race to Zero campaign. Whether investors have committed to such initiatives, or intend to, is an indicator of their level of commitment in tackling climate change.

Figure 7: Is your organization a member of any net zero initiative or have you formally committed to net zero emissions in your portfolios?

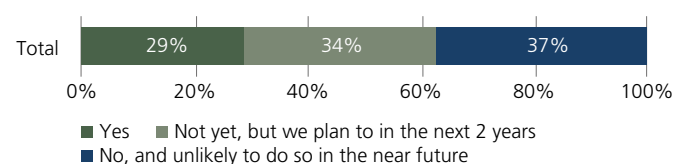
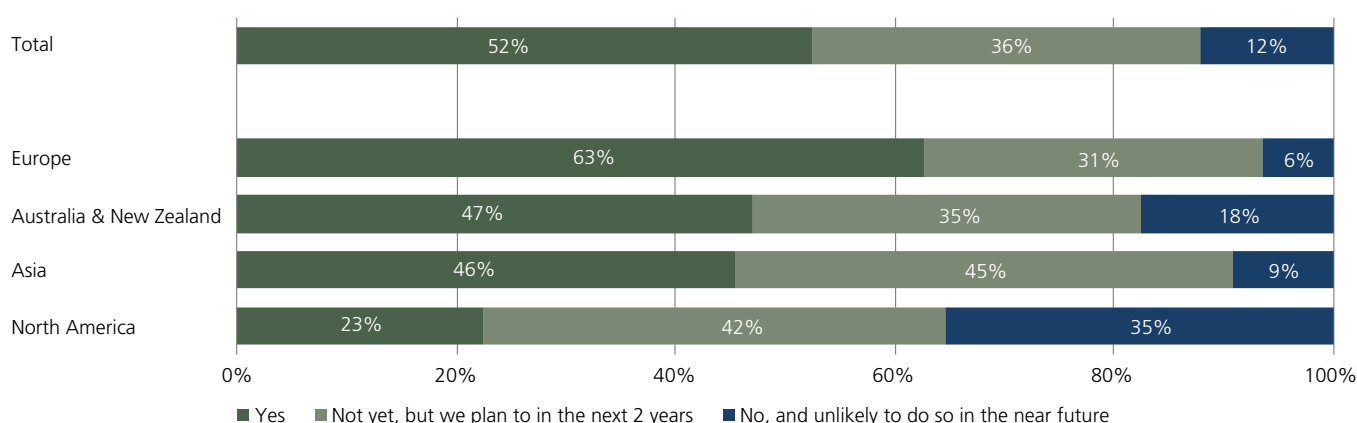


Figure 6: Does your organization have a policy in place for addressing climate change in your decision-making?



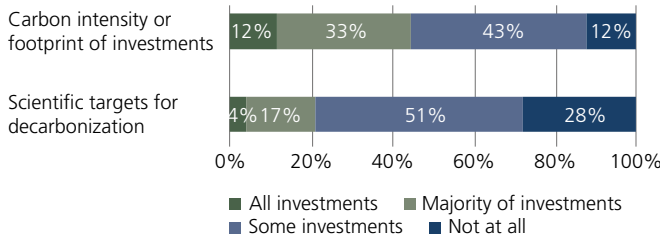
¹ IPCC Sixth Assessment Report: Impacts, Adaptation and Vulnerability

We also asked investors about the specific environmental metrics they use in their investment decision-making, in order to learn what a commitment to combating climate change means in practice (Figure 8). Among those with a climate change policy, 88% of respondents said that they measure the carbon intensity or footprint of their investments, which is one of the most widely used environmental metrics in the industry. A somewhat smaller share of investors, 72%, apply scientific targets for decarbonization, an approach that is steadily gaining traction within the industry, especially with the Science Based Targets initiative (SBTi) helping to spread know-how among investors.

Looking a bit closer, the group of investors measuring the carbon footprint for all or a majority of their investments stands at 45%. This is more than double the number of investors who are using scientific targets for decarbonization for all or a majority of their investments (21%). We can ask the same questions here as we did above about investors' climate

change policies. Should we be reassured by the fact that nearly half of all investors consider the carbon footprint for most of their investments? Or rather, should we be concerned that over half still do not take the carbon footprint into account for the majority of their investments? Also here, the answer depends on how practices develop in the next two years. The recent trend in ESG regulation, where regulators are becoming more assertive in defining standards, will accelerate carbon tracking and reporting in the years to come.

Figure 8: To what extent do you consider the following metrics in your decision-making?



Sustainable Development Goals (SDGs)

The SDGs were approved by the UN General Assembly in 2015 in order to provide a blueprint towards a more sustainable future by 2030. In our 2019 survey – during the early days of incorporating the SDGs – we asked investors to share their expectations for the Goals within the financial industry. Three years later, we asked them to reflect on how they now view the SDGs and the impact the Goals have had on the sector.

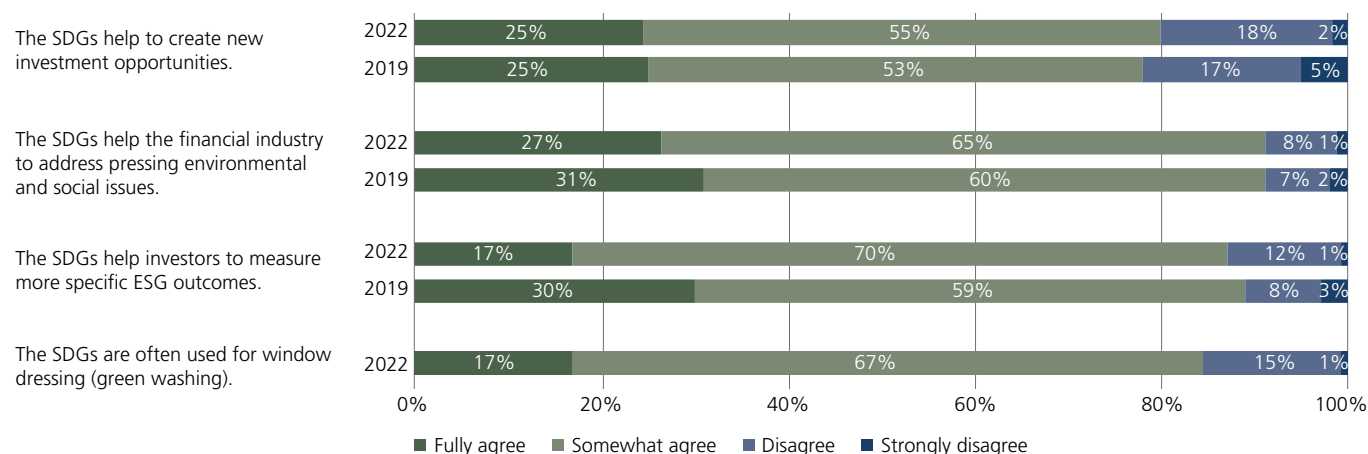
Investor views on the Sustainable Development Goals

We asked investors to respond to various key statements about the SDGs in order to get a wide range of views on the topic. On the whole, their responses suggest that investors feel positive about the actual impact of the SDGs, as shown in Figure 9. For example, when asked if the SDGs help to create new investment opportunities, 80% of investors responded positively. Likewise, asked whether the Goals help the industry to address pressing environmental and social issues, 92% fully agreed or somewhat agreed, and 87% also agreed that the SDGs help investors measure more specific ESG outcomes.

However, 84% of investors also indicated that the SDGs are often used for window dressing (green washing). This suggests a pervading concern among investors that some asset managers are not engaging with Goals in a meaningful way. Managers would do well to heed this concern when developing investment strategies that incorporate the SDGs.

Comparing the 2022 responses with those of 2019 is another way of seeing whether the reality of incorporating the SDGs has lived up to investor expectations. Although investor sentiment on the SDGs has remained largely positive over the three years, we do see subtle shifts in opinion on some measures. For example, the proportion of investors who fully agree the SDGs will help address pressing issues has decreased from 31% to 27%, and similarly, the proportion who fully agree that the SDGs will help measure ESG impact has decreased from 30% to 17%. This suggests that some of investors' initial aspirations for the SDGs have not yet been fully realized, so they are adjusting their expectations. This feeling is further echoed in the United Nation's own statement that "action to meet the Goals is not yet advancing at the speed or scale required."²

Figure 9: How strongly do you agree with the following statements about the Sustainable Development Goals?



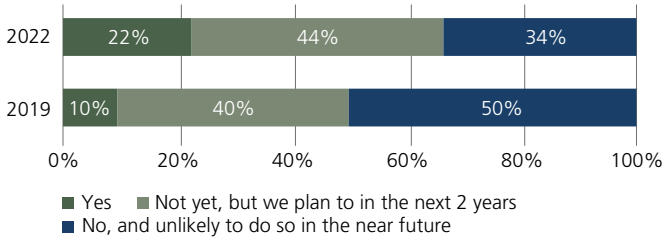
² UN SDG statement: "Decade of Action"

Assessing impact on the SDGs

In our previous report, we noted the difficulty that investors have had in translating the SDGs into investable opportunities. A second challenge facing investors is how they can now measure and report on the impact of investments or companies on the SDGs.

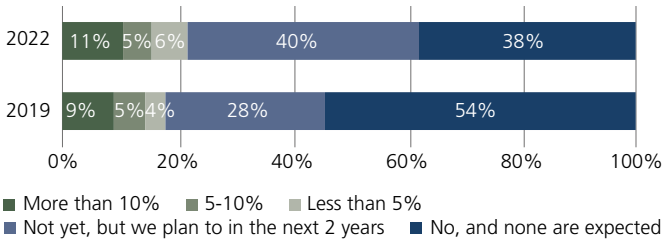
The proportion of respondents who assess SDG impact has more than doubled since 2019 (10% in 2019 to 22% in 2022), as shown in Figure 10, and there has been an increase in the number who plan to assess impact in the next two years (from 40% in 2019 to 44% in 2022). Overall, this suggests that investors are making headway toward integrating and reporting on the SDGs. However, 34% say that they do not currently do this and have no plans to do so, which may reflect some of the misgivings about the SDGs identified in Figure 9.

Figure 10: Do you assess the impact of investments/ companies on the SDGs?



We also asked investors if they had any specific target allocations for impact or SDG-related investments. We find that the proportion of respondents who answered “yes” has increased slightly from 18% in 2019 to 22% in 2022 (Figure 11). Although this is not a significant rise, more telling is the increase in respondents who plan to have SDG allocations in the next two years, which increased by 12 percentage points (28% in 2019 to 40% in 2022). This supports the idea that progress on the SDGs is taking place, even if not at a pace that many investors would like to see.

Figure 11: Do you have specific target allocations for impact or SDG-related investments?



ESG relevance and next steps

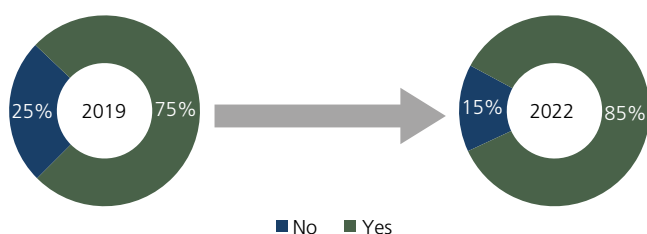
In addition to asking investors about specific areas of sustainability, such as D&I, climate change and the SDGs, we wanted to learn investors' views on ESG as a whole. While ESG as an investment framework has been around now for many years, it is still useful to look at how it is developing and where investor expectations are shifting.

On the most basic question of whether investors integrate ESG considerations in their investment decisions (Figure 12), 85% of respondents said they do so, an increase of 10 percentage points from 2019 levels. This shows that ESG considerations continue to gain traction, even in an investor landscape where the vast majority already integrate them into their decision-making.

Beliefs about risk-adjusted returns

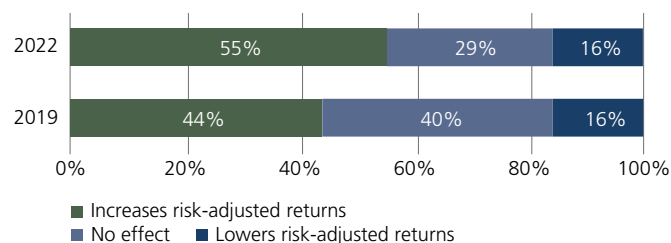
Investors' willingness to include ESG considerations in decision-making is based on a number of perceptions about ESG, not the least of which is belief about risk-adjusted returns. For this reason, we wanted to find out what investors thought about the impact of incorporating ESG criteria on risk-adjusted returns.

Figure 12: Integration of ESG criteria into investment decisions 2022 versus 2019



Comparing the responses from our 2019 survey to 2022 (Figure 13), we observe an increase in the proportion of investors who believe that incorporation of ESG criteria enhances risk-adjusted returns. This cohort grew by 11 percentage points in three years to 55% today, at the expense of those who believe there is no effect. Interestingly, the proportion of investors (16%) who believe that considering ESG factors lowers risk-adjusted returns has remained the same. It suggests that debate about the impact of ESG on investment performance is largely settled, but a small minority of investors remain convinced that integrating ESG factors entails a sacrifice to risk-adjusted returns.

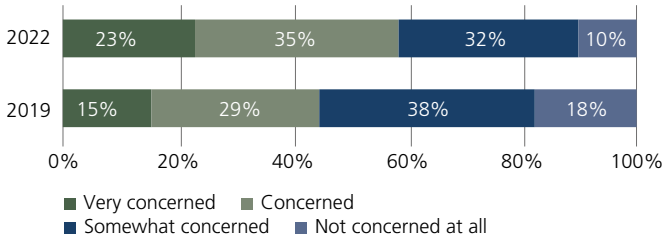
Figure 13: How incorporation of ESG criteria into investment processes affects risk-adjusted returns



Stakeholder concern about ESG integration into investment decision-making

Investor perceptions of the relative importance of ESG to stakeholders guide the pace and depth of ESG adoption, so we wanted to know how investors perceive stakeholder concern. We find that the majority of investors (58%) are concerned or very concerned about ESG integration into investment decision-making (Figure 14), which is a significant increase over the 44% who told us that three years ago. It suggests that stakeholder pressure to invest according to ESG criteria has increased since our last survey in 2019.

Figure 14: Stakeholder concern about the integration of ESG factors into investment decision-making

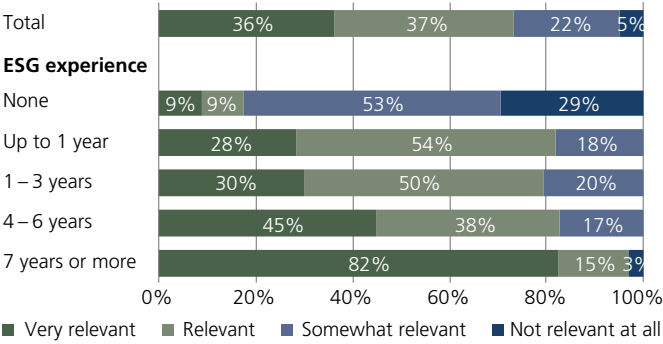


Relevance of ESG to investment decision-making

The preceding data suggests high levels of ESG integration, but we wanted to find out whether investors are really following through on these intentions, so we asked how relevant ESG concerns are when appointing or excluding investment managers. We see that 73% of total respondents considered ESG to be relevant or very relevant when appointing alternative investment managers. Although this is not as high as the 85% who stated they integrate ESG into their decision-making in Figure 12, it is not far off, suggesting that investors on the whole are acting on these intentions.

In addition, the breakdown in Figure 15 shows that the perceived relevance of ESG increases with experience. For example, 82% of the investors with seven or more years of ESG experience said that ESG was very relevant when selecting managers. By comparison, investors in the early stages of ESG adoption demonstrate less certainty. Of the investors with up to one year of experience, only 28% said that ESG was very relevant in appointing alternative investment managers.

Figure 15: Relevance of ESG in appointing alternative investment managers



Similarly, of the most experienced investors (with seven or more years of experience), 74% responded that they would exclude a manager because of ESG concerns (Figure 16). This is not quite as high as the proportion of experienced investors who feel that ESG is relevant in appointing investment managers; however, at 74% it is a significant majority and suggests that the most experienced ESG investors are willing to take action when it comes to incorporating ESG in real decision-making. Again, there is a general correlation between investors' ESG experience and the proportion that would take action, in this case excluding a manager based on ESG concerns. For example, for investors with limited ESG experience (up to one year) this number is significantly lower at 39%.

Analysis of ESG relevance when appointing managers (Figure 15) or excluding managers over ESG concerns (Figure 16) suggests a way of measuring investors' overall ESG conviction. Those who say that ESG is relevant and have taken this into consideration when appointing or excluding managers can be said to have "high ESG conviction," whereas those who say that ESG has little or no relevance and do not take ESG into consideration in these actions are said to have "low ESG conviction." In between are a mix of investors, who

either assign low relevance to ESG or do not appoint/exclude investment managers on ESG grounds, so they are considered to have "medium ESG conviction."

Looking at the change in investors' ESG conviction levels between 2019 and 2022 (Figure 17) reveals a definite trend towards ESG becoming a greater consideration. Nearly half of investors—48%—demonstrate high ESG conviction in 2022 compared to 32% in 2019, which is a significant change in only three years. It suggests that the increase in the proportion of investors who claim ESG is important has been accompanied by an increase in investors who genuinely act on these considerations.

Figure 16: Exclusion of investment managers based on ESG concerns

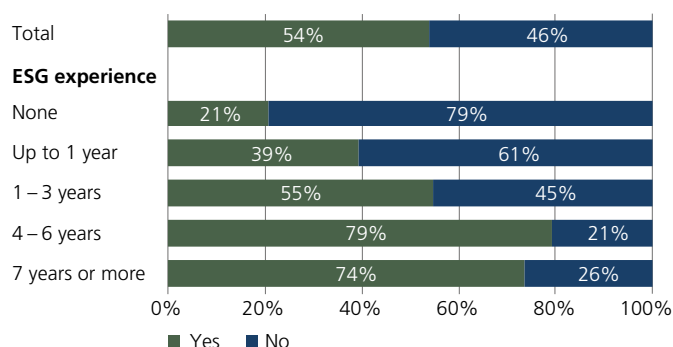
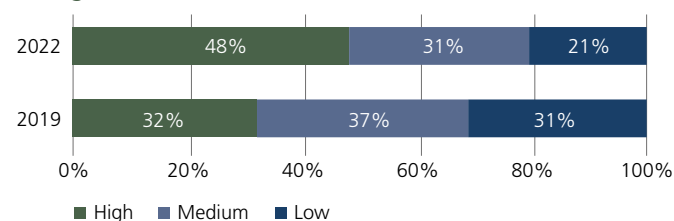


Figure 17: ESG conviction in appointing and excluding managers over ESG concerns



The most important ESG drivers for investors

Investors are influenced by a variety of different factors when considering whether and how to integrate ESG criteria into their investment decision-making. As in our last survey, we asked investors which of these factors were the most important for them. In contrast to the 2019 survey where reputational risk was the highest scoring area, the results for 2022 demonstrate that ethical objectives are now the most important factor (Figure 18). There has also been a significant increase in the ranking score for regulation between 2019 and 2022. In the past three years, we have seen a much greater focus on regulation for ESG, with several important directives passing through voting procedures and coming into force within this time – for example, the EU Sustainable Finance Disclosure Regulation (“SFDR”) and Taxonomy Regulation. The introduction of further regulation for ESG will naturally increase the pressure on investors to integrate ESG criteria into their practice.

How regulation affects investor ESG efforts

We wanted to find out how investors think regulatory changes have affected their ESG efforts. Figure 19 shows that the majority of investors (95%) feel that these regulations at least somewhat support them by setting clearer standards of practices and reporting, with a similar number (94%) stating that it accelerates the availability of data sources for ESG metrics. A similarly high proportion (93%) also stated that it somewhat supports them as it increases transparency and combats greenwashing. Given the scope of the specific regulations that have come into force in the last two years, these results are not surprising. The SFDR in particular is targeted toward reducing greenwashing by imposing disclosure requirements that cover key ESG issues at both entity and product level.

Figure 18: What are the most important drivers of ESG integration?

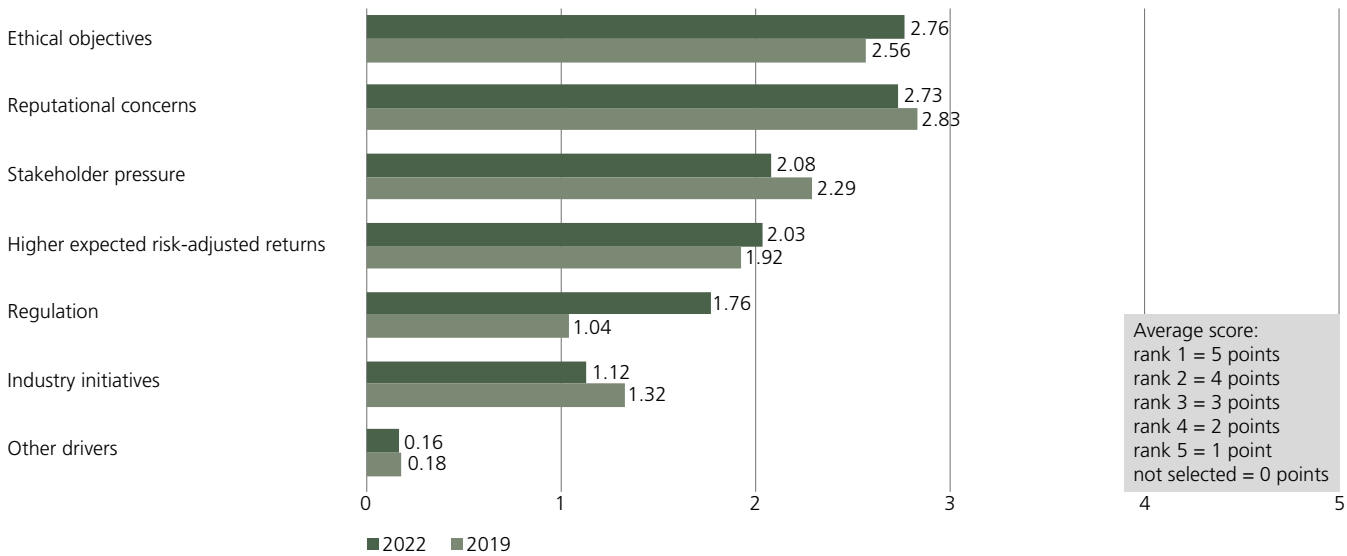
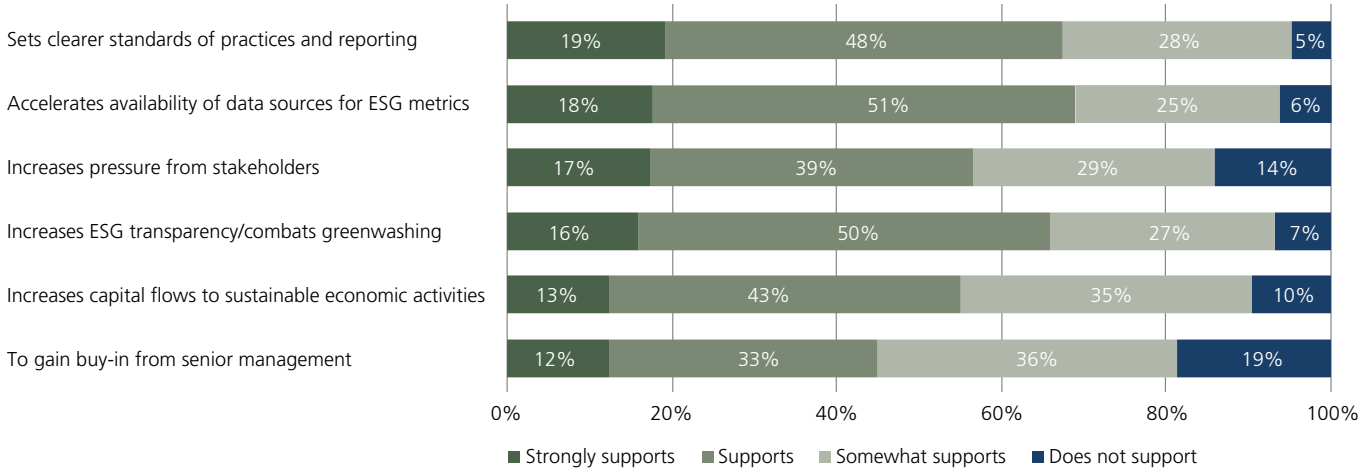


Figure 19: How does ESG regulation (e.g. EU Taxonomy/SFDR) support your ESG efforts?



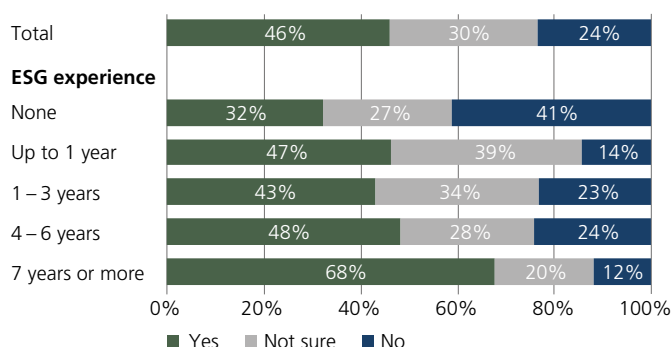
ESG next steps

The analysis of the preceding investor responses demonstrates that an increasing number of investors are integrating ESG criteria into their decision-making and that there is an increase in confidence that ESG can have positive effects, such as on risk-adjusted returns. However, we also wanted to know how investors are incorporating these ideas into their business practices and whether they measure the outcomes of their approach. To better understand this, we asked a series of questions that cover whether investors believe ESG should be embedded into financial accounting, whether ESG considerations are reflected in specific company policies, and whether investors measure how their ESG approach has impacted their financial performance. Examples of initiatives in this field are the Impact Weighted Accounting initiative at Harvard Business School and the creation of the International Sustainability Standards Board by the IFRS Foundation in 2022.

Attitudes towards embedding ESG considerations into financial accounting

When asked whether ESG considerations should be embedded into financial accounting (Figure 20), 46% of respondents answered “yes.” Breaking this down further by ESG experience, there is a correlation between the amount of experience investors have and their positive attitude towards embedding ESG into financial business practices. Of the most experienced investors (seven or more years of experience), 68% stated that they feel this should be the case. It suggests that greater experience in ESG-focused investing leads to greater conviction for the need to translate ESG factors into financial metrics.

Figure 20: Whether investors think ESG considerations should be embedded into financial accounting

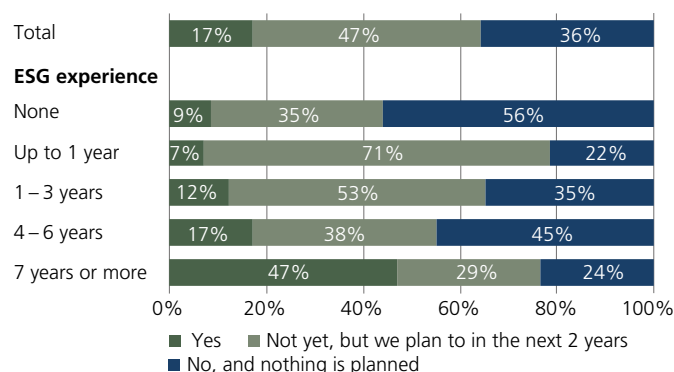


Measuring the effect of ESG integration on investment performance

We also asked investors whether they measure the impact of their ESG approach on the financial performance of their investments. By financial performance, we mean whether ESG factors such as a lower energy bill or lower staff turnover have an impact on the profitability of a company. Increasingly, investors are quantifying such data, moving ESG management closer to the operational management of portfolio companies.

The data in Figure 21 shows that this is still an area for development for investors. For example, only a small proportion currently have these types of measures in place (17%), but a much greater proportion have plans to do so in the near future (47%). Unsurprisingly, only a small number of those that have recently engaged with ESG (up to one year of experience) currently quantify the financial impact of their ESG approach (7%). However, a significant number of the same group intend to implement these measures in the next two years (71%), which shows that even relative newcomers recognize the importance of doing so. In this case, the data highlights that investors' intention and enthusiasm for measuring financial impact are greater than their existing activities, suggesting this will be an area for development in the coming years.

Figure 21: Do you measure whether your approach to ESG factors has affected the financial performance of your investments?





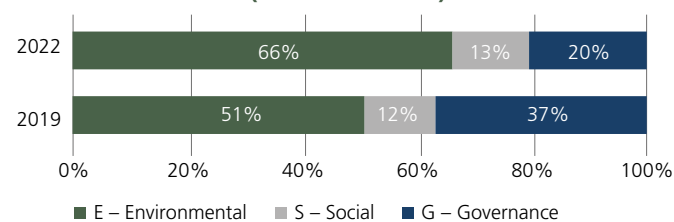
Key areas of ESG focus for investors

Although ESG is often referred to as a single concept, it covers a broad range of issues, such as climate change, waste management, employee health and safety and board independence, to name just a few. In the last three years, we have experienced global-scale events that have changed the perception of ESG issues and should have had an impact on the issues investors prioritize. For example, the COVID-19 pandemic raised awareness and fueled debate about climate change, as the public witnessed a drop in greenhouse gas emissions and subsequently well-publicized short-term environmental improvements. The pandemic also highlighted social inequality, both within societies and between countries. At the same time, the Russian invasion of Ukraine in February 2022 has altered investor perceptions on certain ESG topics. In this section, we explore which issues are the highest priority for investors and look at how this has changed since the 2019 survey. We note, however, that the 2022 data was gathered prior to the start of the war in Ukraine.

Areas of ESG which get the most investor attention

We started by asking investors how they juggle priorities between the three major areas of environment, social and governance. We find that environmental factors continue to get the majority of the attention (66%), a meaningful increase from 51% in 2019. Social concerns have seen a slight increase (12% in 2019 to 13% in 2022) and governance has decreased significantly from 37% in 2019 to 20% in 2022. We interpret this not as a decline in the importance of governance considerations, but rather as a reflection of the urgency to act on the environment, where strategies are still being developed. By contrast, investment frameworks around governance are well-established.

Figure 22: Which area of ESG gets the most attention in your investment activities? (2022 versus 2019)



The most important environmental concerns for investors

We asked investors to rank environmental topics by priority, with Figure 23 showing the top issues for 2022. Climate change and carbon emissions was by far the highest-ranking concern for investors. Energy efficiency and pollution also ranked highly, whereas topics such as genetically modified organisms barely registered with investors.

When we look at the number one environmental concern for investors in 2019 and 2022, climate change held the majority in both years (Figure 24). However, the proportion of investors who rated it as number one has increased by 16 percentage points (from 65% in 2019 to 81% in 2022). It is perhaps unsurprising that climate change is gaining traction, given the trends identified in our last survey, and the raised awareness of the issue post pandemic and coming off the back of the 2021 United Nations Climate Change Conference (COP26).

Figure 23: What are your most important environmental topics?

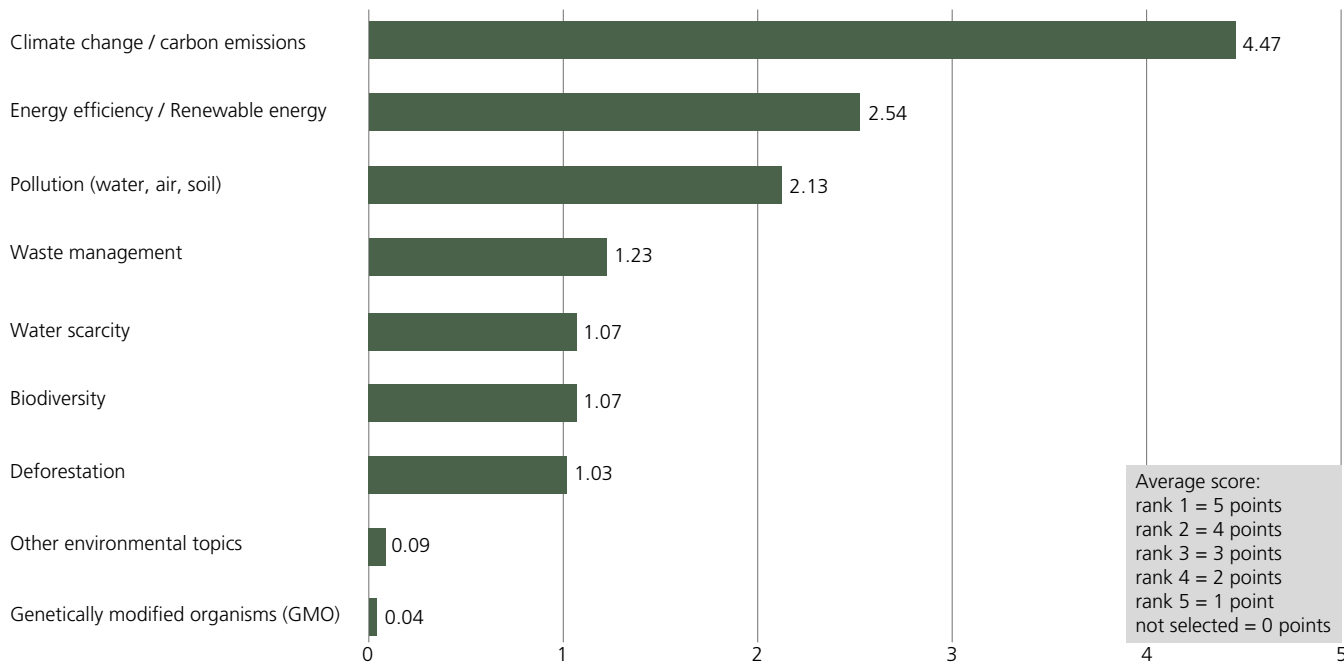
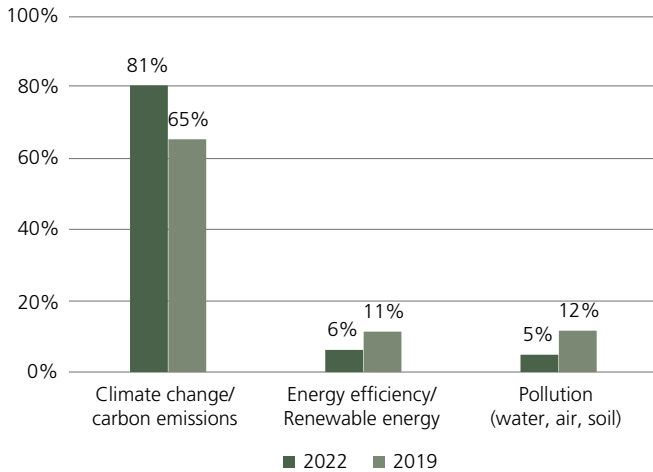


Figure 24: What is your number one environmental concern?



The most important social concerns for investors

In contrast to investors' fairly unified prioritization of climate change, their social concerns cover a much broader range of issues, each with a lower overall score (Figure 25). Climate change is the highest-ranking environmental concern, with a score of 4.47, compared to 2.6 for human rights, the highest-ranking social concern. There is also no runaway leader in these social concerns, although human rights has climbed to the top of the investor ranking.

In Figure 26, we can see that the concerns investors stated as number one have not changed significantly between 2019 and 2022. There has been an increase of three percentage points in the proportion who said that human rights were their priority (20% in 2019 and 23% in 2022) and a corresponding decrease of three percentage points in those who answered controversial weapons (22% in 2019 and 19% in 2022).

Figure 25: What are your most important social concerns?

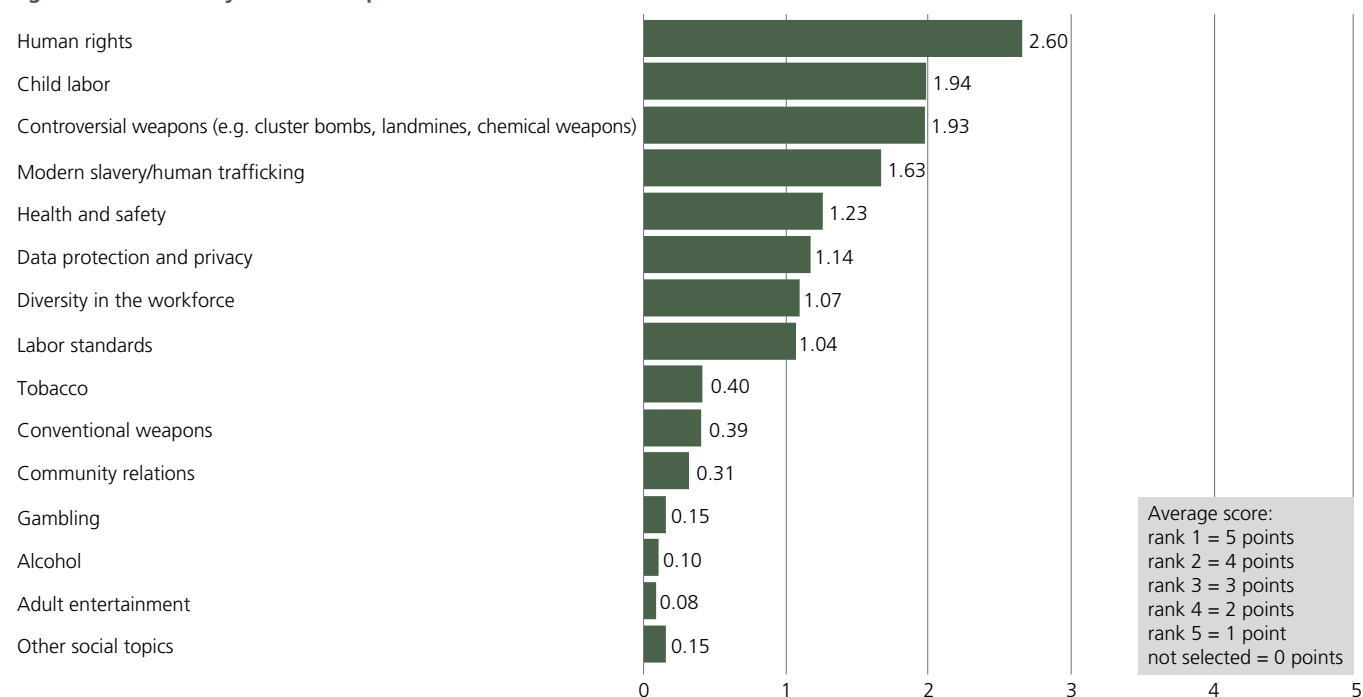
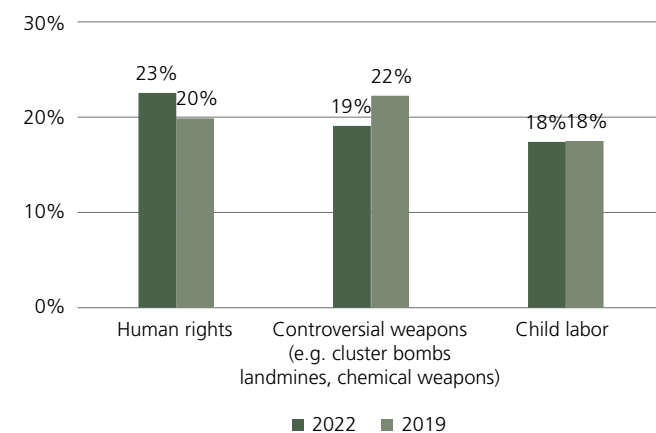


Figure 26: What is your number one social concern?

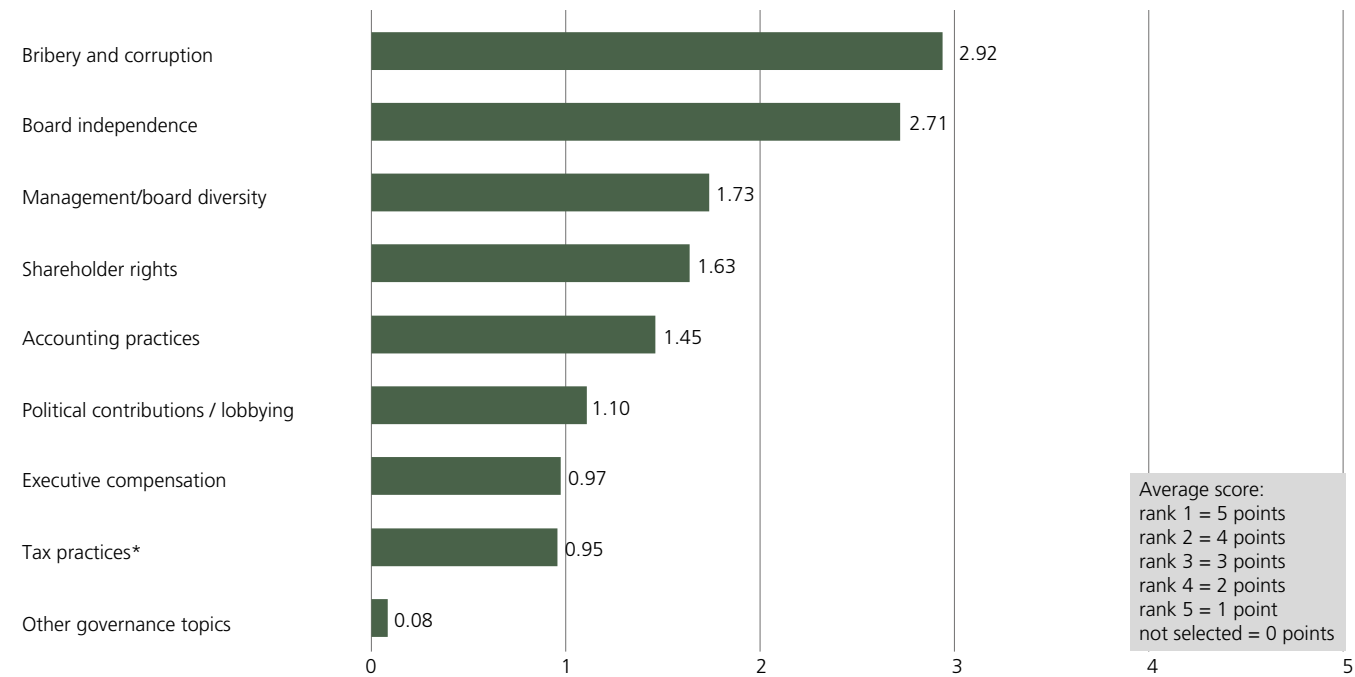


The most important governance concerns for investors

Investor responses indicated that bribery and corruption, board independence, and management/board diversity were the three highest-ranked governance topics for 2022 (Figure 27). Interestingly, management/board diversity came sixth in the 2019 survey, whereas it is now in the top three. This shift

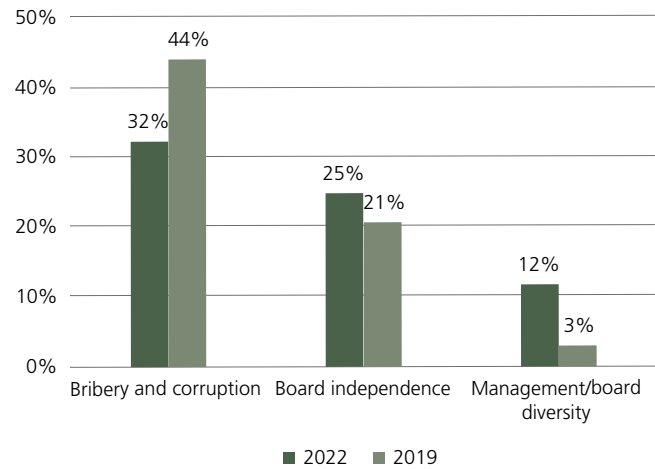
can also be seen in Figure 28, which shows the number one governance concerns for investors. Comparing the figures from 2019 to 2022, bribery and corruption has dropped by 12%, accompanied by a small 4% increase in board independence and a more significant increase of 9% for management/board diversity.

Figure 27: What are your most important governance topics?



*In 2019 the topic was not queried

Figure 28: What is your number one governance concern?



ESG archetypes

The responses we have collected from 230 institutional investors in 28 countries give us an opportunity to examine more than simply their responses to individual questions. We can also analyze the correlations between answers on various themes – such as ESG integration experience, decision-making relevance, ESG effect on risk-adjusted returns and level of stakeholder concern. Doing so enables us to create groupings of investors with similar views on these four themes, which provide a richer picture of ESG beliefs and practices.

Key characteristics of the ESG archetypes

The six ESG archetypes represent a broad range of views and practices, but each one represents a fairly consistent set of thinking and actions on ESG. There are, however, a couple of archetypes with somewhat unusual characteristics, as we lay out below:

- **Skeptics** – This group has the least engagement with the ESG topic, and they have virtually no experience of integrating it into their investment activities. They are also convinced that ESG negatively impacts risk-adjusted returns.
- **Contradicters** – Similar to the Skeptics, this group lacks ESG experience and does not consider it in investment decision-making. However, they do register a degree of concern from stakeholders on ESG, but not enough to actually do anything about it. Curiously, they think that ESG has a positive effect on risk-adjusted returns, yet they choose to ignore it in decision-making.
- **Sacrificers** – These investors have some experience with ESG and they say it is relevant to their decision-making. They are also convinced that ESG has a negative effect on risk-adjusted returns, but they willingly forego a certain amount of risk-adjusted return for the sake of ESG.
- **Newbies** – These investors have only recently begun integrating ESG into their investment activities, and they say it is relevant to their decision-making. They also have stakeholders who are concerned about it, but they do not hold strong views on the risk-adjusted return question.
- **Movers** – Similar to the Newbies in terms of stakeholder concern and ESG relevance in their decision-making, this group has more experience in integrating ESG. They appear to be on their way to becoming True Believers in a few years' time, and they are convinced that ESG enhances risk-adjusted returns.
- **True Believers** – These investors have unequivocally embraced ESG, as it plays a significant role in their decision-making and they have stakeholders who are very concerned about it. They have significant experience with ESG, and they are convinced of its positive effects on risk-adjusted returns.

In Figure 29, these six archetypes are arranged according to their level of ESG integration and conviction, with the size of the bubbles indicating the relative size of the group. We can see clearly that for 2022 the biggest group is Movers at 29% and that the smallest groups are Skeptics and Contradictors (9% and 6% respectively). If we compare the archetype proportions to the figures from 2019 (Figure 30), we can see that the single biggest group has changed from Newbies in 2019 (at 27%) to Movers (29%). Importantly, Movers and True Believers now make up half of the respondents for 2022, suggesting that

confidence in the importance and positive effects of ESG is becoming more predominant. Additionally, the outlier groups of Skeptics, Contradictors and Sacrificers have decreased to a combined 27% in 2022 compared to 35% in 2019, with the Skeptics having seen the greatest reduction from 15% to 9%. These changes further support the idea that the overwhelming majority of investors are integrating ESG, with only a small minority now choosing to ignore the topic (15% Skeptics and Contradictors).

Figure 29: ESG archetypes

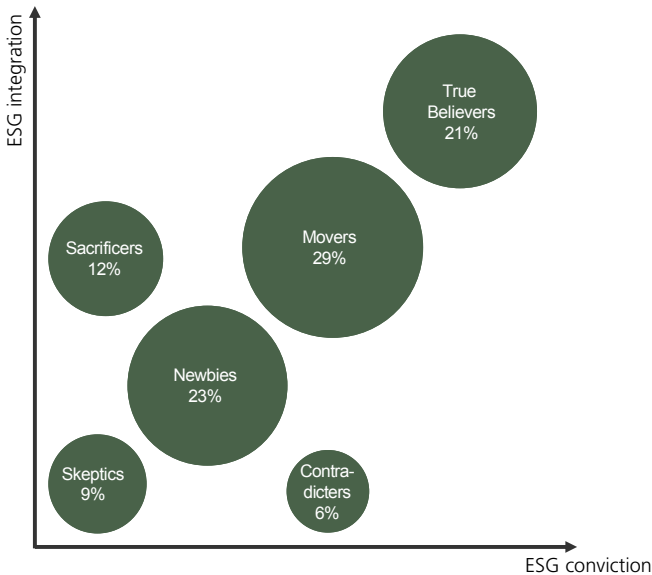
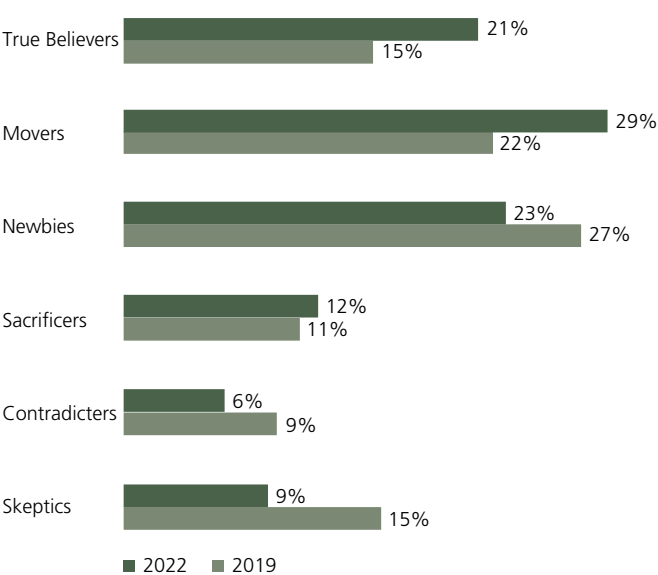


Figure 30: ESG archetypes in 2022 vs. 2019



Conclusions

In this survey, we asked investors across the globe to share their views on D&I, climate change, the SDGs and ESG. This has given us an overview of which issues investors currently prioritize and which might be areas for development in the coming years.

We found that for D&I, nearly half of respondents have a D&I policy in place, but just over a third currently take D&I into account in investment decision-making. There are also big differences in how investors in each region approach D&I, with North America in the clear lead in policy and practice, followed by Europe and Asia. Investors cite “better decision-making” as a key driver for D&I adoption, which suggests that the current gap between uptake of policies and integration into investment decisions should close over time.

Over half of investors have a climate change policy, which typically includes carbon intensity as a key measure of risk assessment. There is less agreement about specific ways of implementing policies. A large proportion of investors look to align with the Paris Agreement on climate change or science-based targets as a way of structuring their approach to climate change, while many others do not. Practices are very much in flux, as more than half of investors also say that they are currently part of or plan to join a net zero initiative within the next two years. The extent to which a large portion of investors realize their ambitions to get more active on climate change will determine the scope of the industry's response.

Investor perceptions around the SDGs have changed since the last survey three years ago. Although the responses suggest a slight decrease in confidence in the SDGs as an investment framework – perhaps the inevitable difference between early aspirations and reality – the number of investors who currently assess the impact of the SDGs has more than doubled.

Additionally, the proportion of investors who have specific target allocations for impact has increased, as has the proportion who intend to implement the near future. It suggests the SDGs are here to stay, but managers need to refine practices for implementing the goals.

As mature as ESG practices have become in recent years, we have still found a 10 percentage point increase in the percentage of investors integrating ESG in investment decision-making over three years ago. We also see an increase in ESG conviction among investors, as measured by its relevance in the investment process and their willingness to exclude managers on ESG grounds. While ethical objectives and reputational concerns remain among the key drivers for ESG integration, investors consider regulation a much bigger driver than it was three years ago.

Looking ahead to future developments in ESG, investor responses suggest an increasing interest in quantifying and reporting on ESG performance. Nearly half of investors think ESG considerations should be embedded into financial accounting, and this proportion grows to more than two-thirds among investors with the most ESG experience. We find a similar result when asking about whether the investors themselves measure the financial performance of ESG factors. It suggests that the longer investors integrate ESG factors, the more strongly they feel about measuring the financial impact of ESG.

As the landscape for ESG and sustainable investing continues to evolve, we at LGT Capital Partners will continue to work with investors and other stakeholders to provide effective solutions. While many challenges lie ahead, the opportunities for meeting them are even greater.

Survey participation

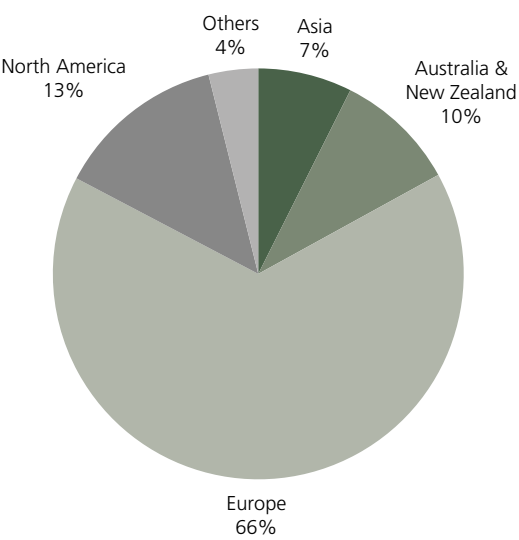
Our ESG survey of institutional investors in alternatives included 230 participants from 28 countries, who invest in private equity, real estate, private debt, infrastructure and hedge funds. They shared their views on the role of ESG in investment decision-

making, the top ESG issues, the impact of the SDGs, and their views on the role of diversity and inclusion in investment decision-making.

Figure 31: Countries represented

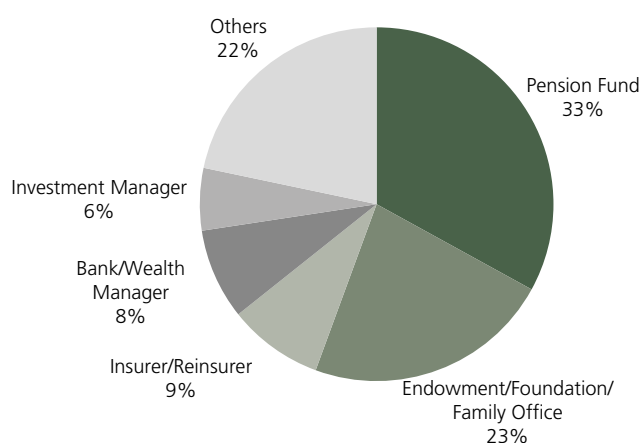
Andorra
Australia
Austria
Belgium
Canada
Chile
China
Denmark
Finland
France
Germany
Hong Kong
Iceland
Japan
Kuwait
Liechtenstein
Malaysia
Netherlands
New Zealand
Peru
Saudi Arabia
Singapore
Spain
Sweden
Switzerland
Taiwan
United Kingdom
United States

Figure 32: Respondents by region



Survey participants represented a wide variety of investor types, including pension funds, endowments, insurers, investment managers, banks and others. They are also largely senior investment decision-makers, with the most numerous being portfolio managers/heads of asset class or CIOs/CEOs.

Figure 33: Investor types



Participants also represent institutions of all different sizes, ranging from less than USD 3 billion in assets under management to more than USD 50 billion.

Figure 36: Assets under management

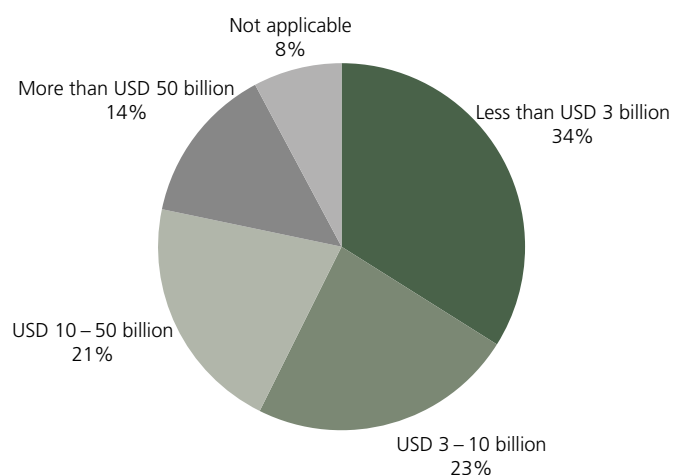


Figure 34: Investor roles

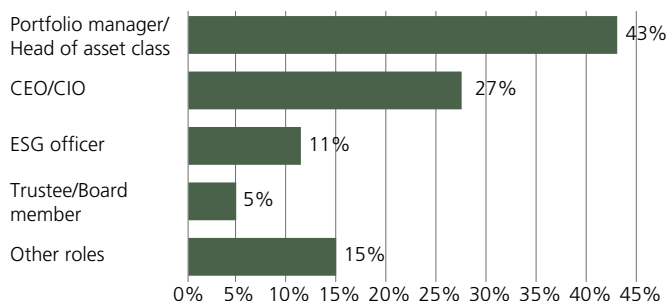
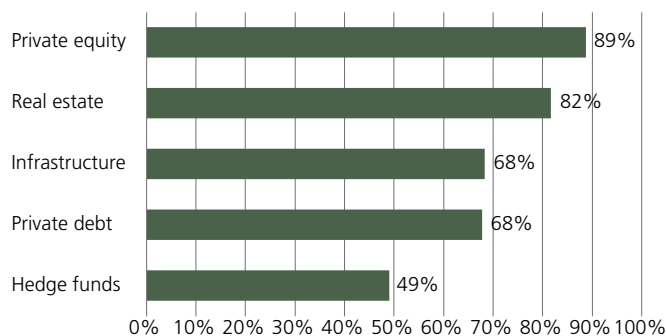


Figure 35: Percentage of participants investing in various asset classes



LGT Capital Partners Ltd.

Schuetzenstrasse 6
CH-8808 Pfäeffikon
Phone +41 55 415 96 00
Fax +41 55 415 96 99

LGT Capital Partners (USA) Inc.

30th Floor
1133 Avenue of the Americas
New York, NY 10036
Phone +1 212 336 06 50
Fax +1 212 336 06 99

LGT Capital Partners (Ireland) Ltd.

Third floor
30 Herbert Street
Dublin 2
Phone +353 1 433 74 20
Fax +353 1 433 74 25

LGT Capital Partners (U.K.) Limited

1 St. James's Market
London SW1Y4AH
Phone +44 20 7484 2500
Fax +44 20 7484 2599

LGT Private Debt (UK) Ltd.

1 St. James's Market
London SW1Y4AH
Phone +44 20 7484 2500
Fax +44 20 7484 2599

LGT Private Debt (France) S.A.S

43 Avenue de Friedland
75008 Paris
Phone +33 1 81 80 5600

LGT Private Debt (Germany) GmbH

Neue Mainzer Strasse 6–10
60311 Frankfurt am Main
Phone +49 69 505060 4701
Fax +49 69 505060 4155

LGT Capital Partners (FL) Ltd.

Herrengasse 12
FL-9490 Vaduz
Phone +423 235 25 25
Fax +423 235 25 00

LGT Capital Partners (Dubai) Limited

Office 7, Level 3, Gate Village 10
Dubai International Financial Centre
P.O. Box 125115
Dubai
Phone +971 4 401 9900
Fax +971 4 401 9991

LGT Capital Partners (Asia-Pacific) Limited

4203 Two Exchange Square
8 Connaught Place Central
G.P.O. Box 13398
Hong Kong
Phone +852 2522 2900
Fax +852 2522 8002

LGT Investment Consulting (Beijing) Ltd.

China World Tower 3B
Floor 61 / Unit 01
No. 1 Jian Guo Men
Wai Avenue, Chaoyang
District, Beijing
Postal Code: 100004
Phone +86 10 6505 8225
Fax +86 10 5737 2627

LGT Capital Partners (Japan) Co., Ltd.

9th Floor, Okura Prestige Tower
2-10-4, Toranomom, Minato-ku
105-0001 Tokyo
Phone +81 3 6272 6442
Fax +81 3 6272 6447

LGT Capital Partners (Australia) Pty Limited

Suite 40.04, Level 40
264 George Street
Sydney NSW 2000
Phone +61 2 7908 7777

LGT Capital Partners (USA) Inc.

5th Floor
1 Glenwood Avenue
Raleigh, NC 27603
Phone +1 919 798 2677

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LGT Capital Partners Ltd.
Schuetzenstrasse 6, CH-8808 Pfaffikon
Phone +41 55 415 96 00, lgt.cp@lgt.com

www.lgtcp.com

