RBC Global Asset Management

US Financial Advisor Report 2021

Financial advisor insights from the 2021 RBC Global Asset Management Global Responsible Investment Survey

Responsible
Investment Survey 2021

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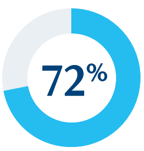
RBC Global Asset Management Global Responsible Investment Survey

As it has done for each of the last five years, RBC Global Asset Management conducted a survey in 2021 of institutional investing professionals all over the world in order to gauge their views on responsible investment. Of the total of 489 US respondents to this study, 88 of them are financial advisors – wealth managers or wealth platform companies, registered investment advisors, broker-dealers, family offices, and financial planning firms.

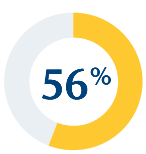
The following brief takes a deeper look at what is driving interest in responsible investment issues specifically among financial advisors relative to the full 2021 US survey results that are heavily weighted toward institutional investors and consultants. It also explores how the COVID-19 pandemic has altered their attitudes toward incorporating ESG factors into their investment approach, and how their views on responsible investing compare to those of all institutional investors and consultants in the US.

Key findings within the US:

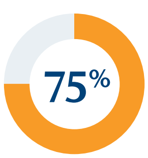


Just under three-quarters (72%) of these financial advisors were using ESG principles as part of their investment approach and decision making process – a full 8 percentage points higher than the 64% of total US respondents that use ESG principles either "somewhat" or "significantly". Nearly one third of financial advisors (31%) used these principles "significantly," making them more likely than US investment professionals overall (institutional investors, consultants and financial advisors) to use them significantly (19%).

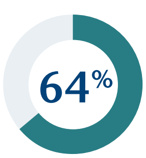
Among financial advisors, ESG principles were incorporated primarily in equities (95%), followed by fixed income assets (70%). They were significantly more likely than US investment professionals overall to incorporate ESG principles for these two asset classes (79% and 54%, respectively).



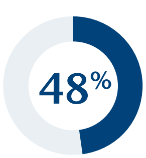
Their reasons for incorporating these principles had more to do with fiduciary duty and business considerations than requirements by the firms' board/stakeholders, client investment guidelines or government regulations. **Just over half of the sample of financial advisors (56%) cited fiduciary duty as a reason for incorporating ESG principles, the same percentage who indicated that their firms believe that integrating ESG factors would lower the risks and increase the returns of the investment solutions provided to clients.** Less than one quarter were required by boards/shareholders (18%) or their investment guidelines (15%) to integrate these factors.



In general, 75% of US financial advisors who responded to the survey believe that ESG-integrated portfolios are likely to perform better than or as well as non-ESG-integrated portfolios. More than half of these financial advisors (52%) believe that integrating ESG factors can help mitigate risk, and close to half (47%) believe it can help generate long-term sustainable alpha.



An average of nearly two-thirds (64%) of the financial advisors' responsible investing portfolios are actively managed.



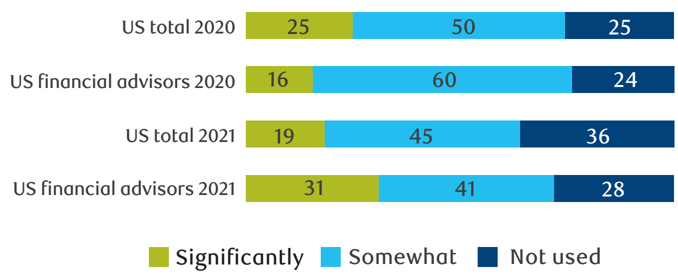
Nearly half (48%) do not think that there are sufficient fixed income product offerings that incorporate ESG factors, while less than half as many (17%) disagree; the remaining third (34%) are not sure.

Financial advisors embrace ESG at higher rates

Mirroring last year's results, financial advisors in the US reported that they employ ESG factors in their investment approach and decision making process – approximately 10% more that the US total response rate. This year, 72% of financial advisors used ESG factors either 'significantly' or 'somewhat' versus an overall US response of 64%. In 2020 these results were 76% and 65% respectively.

EXHIBIT 1

ESG principles used



When asked the reasons for incorporating ESG in their investment approach, financial advisors were split evenly between two: they believed it was part of their fiduciary duty (56%) and it could help lower risk and increase returns (56%). These were the top two responses for US respondents overall, but this group was more likely to report both that they were required by their stakeholders (25% versus 18%) and/or investment guidelines (23% versus 15%) to integrate ESG factors. Conversely, the most-cited reason for not incorporating ESG factors by both financial advisors and total US respondents was they did not believe it was consistent with their fiduciary duty to maximize returns.

Concerns about individual ESG factors

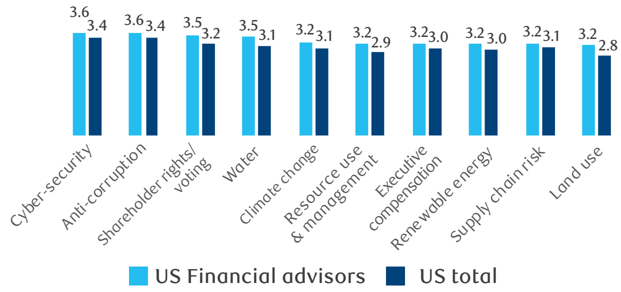
Respondents were polled as to their concern level regarding 18 individual ESG-related themes – seven were Social factors, five were Governance and six were Environmental. Among these themes, it was a Social factor, cyber-security, that ranked highest among these financial advisors, as it did among total US respondents overall. Nearly two-thirds (64%) rated it a 4 or 5 on a five-point scale (with 5 representing "It will make or break my investment decisions"). Ranking second was a Governance issue – anti-corruption – with 59% rating it a 4 or 5. Of next-greatest concern to this sample of financial advisors were shareholder rights/voting (58%), water (also 58%), climate change (53%), and renewable energy (51%). The other 12 factors were given a concern level of 4 or 5 by less than half of the sampled financial advisors.

Five of the six Environmental factors were rated to be of significantly greater concern by financial advisors than by US investment professionals overall. The sixth factor, climate change, was rated a 4 or 5 by more financial advisors in the sample than US respondents overall (53% versus 44%).

The ESG factors that financial advisors expressed the least concern about were Social factors, including income inequality (34%), employee engagement (36%), community impact (36%), and workplace diversity (37%).

EXHIBIT 2

Top 10 ESG Concerns



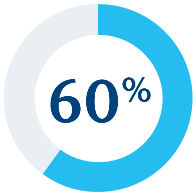
*Data shown is mean number of responses.

COVID-19

The global health pandemic appears to have had a modest impact on financial advisors' attitudes towards ESG principles. A majority of these respondents (60%) claimed that COVID-19 did not affect their views about the importance of ESG considerations.

However, they were significantly more likely to report that COVID-19 increased the importance they placed on ESG considerations (34%) than US institutional investors overall (22%). Similarly, more financial advisors (29%) than overall US investors (20%) were paying closer attention to specific ESG issues – namely climate risk and cyber-security/data privacy – as a result of the pandemic.

Financial advisors in the sample who reported that the pandemic did not increase their attention to any specific ESG factors outnumbered those who claimed that it did make them pay more attention to specific ESG factors by over two to one (71% to 29%).



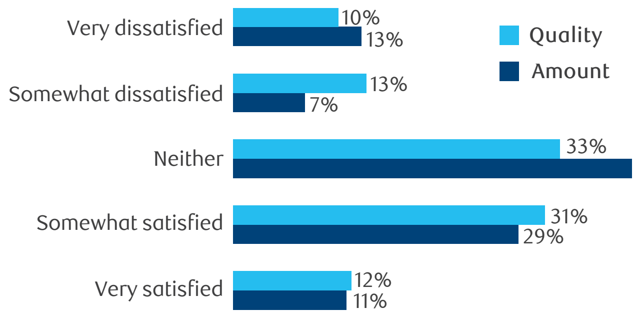
of US financial advisors report that the importance they place on ESG considerations has NOT changed due to the COVID-19 pandemic.

ESG-related disclosures

More of the financial advisors are satisfied (40%) rather than dissatisfied (20%) with the amount of ESG-related disclosures provided by issuers, and more are satisfied (43%) than dissatisfied (24%) with the quality of such disclosures. However, these levels of satisfaction are not particularly strong: More of them were "somewhat" satisfied than "very" satisfied on both counts: 11% reported being "very satisfied" with the amount of these ESG-related disclosures, and 12% were "very satisfied" with the quality of these disclosures.

Exhibit 3

Satisfaction with amount and quality of ESG disclosures



Related to these disclosures, many more financial advisors believe that shareholders (49%) should take the lead in influencing companies to provide better ESG-related information, rather than industry organizations (19%) or government regulators (16%). These sentiments are generally consistent with those of US investment professionals overall.

Shareholders should take the lead in influencing companies to provide better ESG-related information.

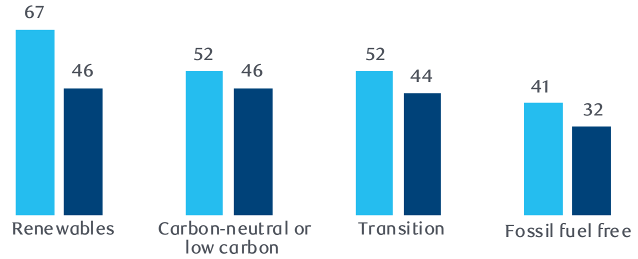
It is interesting to note that the COVID-19 pandemic did not have an impact on most financial advisors' opinions concerning companies' level of disclosure on topics such as worker safety, employee health benefits, workplace culture and other 'social' factors. Only 19% of respondents felt that corporations should increase disclosure in these areas but 33% believed this was not necessary.

Investing priorities – climate, diversity, impact investing

As noted above, financial advisors tended to express greater concern about climate factors than other US investment professionals. While most (60%) of their investment policies do not address climate risk, a significantly higher proportion of them do address climate risk (33%) than US investment professionals overall (20%). They are also significantly more interested in investing strategies focused on renewables (67%) than other US investment professionals (46% overall). About half of them (52%) are interested in carbon neutral or low carbon strategies and in "transition" investments (investments in high carbon companies committed to moving to low carbon).

Exhibit 4

Interest in climate-related strategies



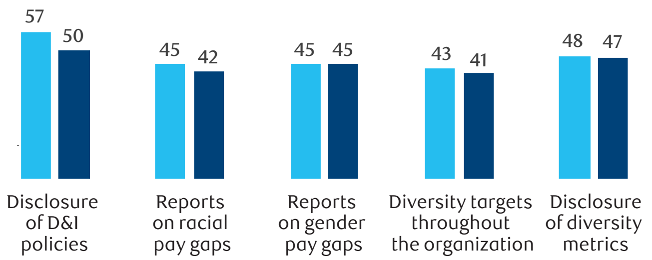
*Responses to question, "When thinking of climate-related strategies, which of the following are you interested in?"

Just one quarter (26%) think there are sufficient climate-related product offerings; more of them (41%) think that existing offerings are not sufficient. (The rest aren't sure.)

Financial advisors narrowly favor gender and diversity targets for boards, by roughly similar margins (44% in favor of versus 40% opposed to gender targets, 45% versus 38% for minority targets). A majority of them (57%) consider it "very important" or "important" for companies in which they plan to invest to disclose diversity and inclusion policies. Less than half considered the other four diversity disclosures – reports on racial and gender pay gaps; diversity targets; and diversity metrics – to be "very important" or "important."

Exhibit 5

How important are each of the following for companies in which you might invest?



Financial advisors appear to be more committed to impact investing than US investment professionals overall. While less than half, 39%, currently hold impact products in their or their organization's portfolio, this is significantly greater than the percentage of all US respondents with impact products in their portfolios (23%). Half of the financial advisors (51%) expect to allocate funds to impact investing (as opposed to ESG/SRI) in the next 1-5 years, nearly double the percentage of all US respondents who expect to do so (28%).

2x **The percentage of financial advisors who expect to allocate funds to impact investing near-term is nearly double that of all US respondents.**

Demographic overview

The group of US financial advisors is comprised of 36% wealth managers/wealth platforms; 24% registered investment advisors; 23% broker/dealers; 15% family offices; and 2% financial planning firms.

The financial advisors' companies tended to be smaller than the companies at which the other American investment professionals worked, with a median of 87 employees, compared to over 650 in the US sample as a whole. Their organizations' retirement assets were therefore smaller as well: About one third of their organizations' pension retirement assets were $1 billion or more, whereas 45% of the US organizations overall had pension retirement assets of at least $1 billion.

Methodology

- In the summer of 2021, Signet Research, on behalf of RBC Global Asset Management, conducted a survey of institutional investing professionals all over the world in order to gauge their views on ESG investing. A total of 88 respondents from this study worked in "intermediary" businesses in the investment world and were based in the US – for wealth manager or wealth platform companies, registered investment advisors, family offices, broker/dealers or financial planning firms, referred to as financial advisors herein.
- The full 2021 RBC Global Asset Management Global Responsible Investment Survey reflects the views of institutional investors, consultants and financial advisors from the US, Canada, Europe, and Asia. The US accounted for over half (61%) of all responses. In total, the survey reflects responses from 805 survey participants.
- Given the sample size, the percentages for all financial advisors shown above may be accepted as accurate within a sampling tolerance of +/- 8.8 percentage points, at a 90% confidence level. Margins of error are wider for percentages based on subsets of all financial advisors.

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For a full copy of the survey results, visit https://institutional.rbcgam.com/en/us/responsible-investment/other-links/our-latest-independent-research

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