RBC Global Asset Management

Financial advisor insights from the 2020 RBC Global Asset Management Global Responsible Investment Survey

Financial advisors embrace responsible investing, driven by fiduciary duty and client preferences

RBC Global Asset Management's most recent Global Responsible Investment Survey reveals more than three-quarters use ESG principles as part of their investment approach.

For the past four years, the RBC Global Asset Management Global Responsible Investment Survey has gauged the steadily increasing acceptance and adoption of ESG principles among investors and investment advisors around the world.

The following brief takes a deeper look at what is driving interest in ESG specifically among financial advisors – wealth managers, investment advisors, family offices, and financial planning firms – separate from the full 2020 survey results that are heavily weighted toward institutional investors.

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 all institutional investors' in the US.

Key findings within the US

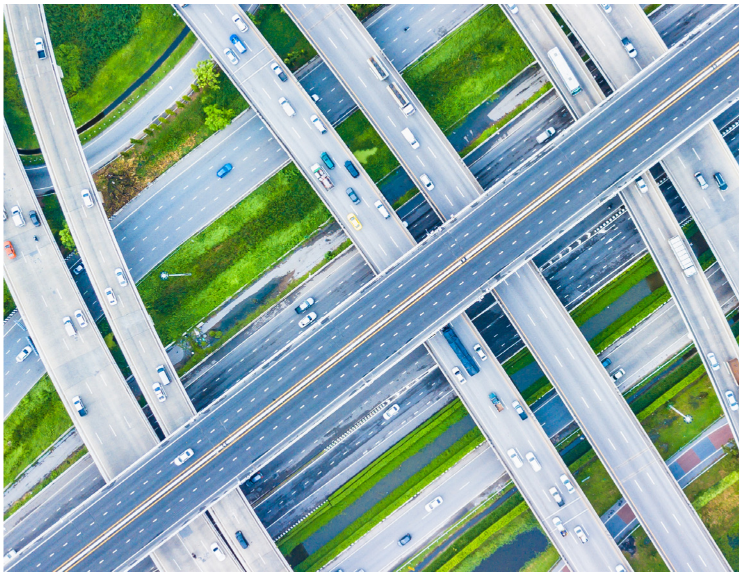
Financial advisors vs. all respondents

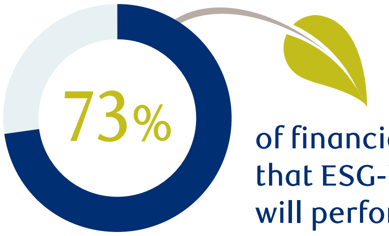
- Financial advisors report a much higher adoption of ESG-integrated portfolios compared to all US respondents.
- Financial advisors are more likely to expect "better" returns from ESG-integrated portfolios than respondents as a whole.
- Both groups cite fiduciary duty and financial performance as the top drivers of ESG adoption, at similar rates.
- Equities are by far the most popular asset class for deploying ESG principles among financial advisors, with 91 percent of those surveyed incorporating ESG in equity strategies, even more than all respondents.
- Financial advisors are less likely than all respondents to integrate ESG principles in other asset classes, particularly real estate and other alternatives.
- Anti-corruption is the most concerning ESG factor for both financial advisors and all respondents.
- Most financial advisors say COVID-19 has not increased the importance they place on ESG considerations (by a factor of two to one), in line with all respondents.
- Among the minority of respondents who say COVID-19 had increased the importance, both groups cite supply chain and climate as the top factors highlighted by the pandemic.

Financial advisors are using ESG principles at higher rates and are more optimistic about impact on returns

Financial advisors are more likely to be using ESG principles than are all US respondents to the RBC Global Asset Management Global Responsible Investment Survey. And their expectations around the financial performance of these investments are more optimistic than US institutional investors.

Just over three-quarters (76%) of these financial advisors are using ESG principles as part of their investment approach, compared to 65% of all US respondents. Those financial advisors who are using these principles "somewhat" (60%) far outnumber those who were using them "significantly" (16%), similar to the 49%-16% split among all US respondents.





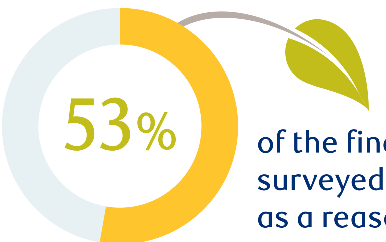
of financial advisors believe that ESG-integrated portfolios will perform as well as or better than non-ESG-integrated portfolios.

And 73% of financial advisors believe that ESG-integrated portfolios will perform as well as or better than non-ESG-integrated portfolios, in line with full survey results in the US of 74%.

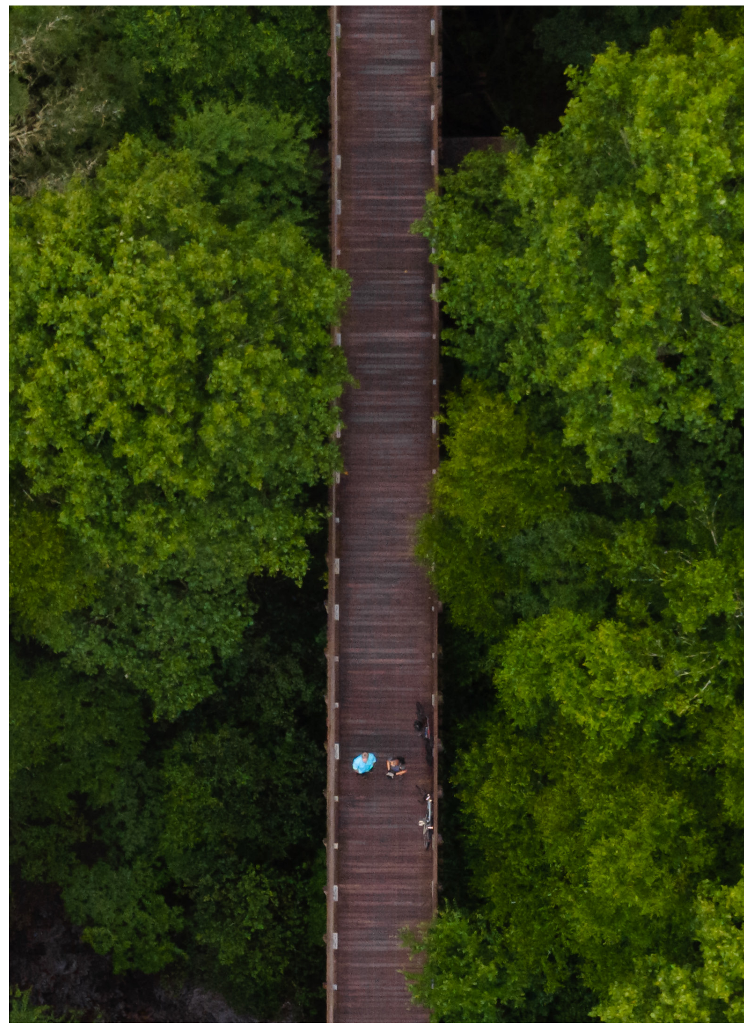
However, there is an even more pronounced difference in how many respondents expect "better" returns from ESG-integrated portfolios: 31% of financial advisors compared with 28% of all US respondents.

Just 27% of financial advisors say ESG-integrated portfolios will perform worse than traditional portfolios, without ESG considerations reflected in the investment process, compared to 26% of the entire US survey.

Fiduciary duty and financial returns are key drivers for financial advisors



of the financial advisors surveyed cite fiduciary duty as a reason for incorporating ESG principles.



ESG adoption among financial advisors is generally an investment decision, rather than the result of requirements from shareholders or a result of specific investment guidelines from the firms with which they may be affiliated.

About half (53%) of the financial advisors surveyed cite fiduciary duty as a reason for incorporating ESG principles, and about the same percentage (48%) indicate that their firms believe that integrating these factors will lower their risks and increase their returns. Those results were consistent with all US respondents — 51% of whom cite fiduciary duty and 49% lower risk.

Only 20% of financial advisors say they incorporate ESG factors because they are required to do so, which is also nearly identical to all US respondents.

Fiduciary duty is also the most common reason for both financial advisors and all respondents who do not integrate ESG factors in their investment decisions (43% of financial advisors in this subset, compared with 39% of all US respondents), showing a split opinion on the value of ESG factors to creating alpha and investing in a client's best interest.

Equities dominate ESG investing among financial advisors

of financial advisors selected equities as an asset class in which they integrate ESG factors.

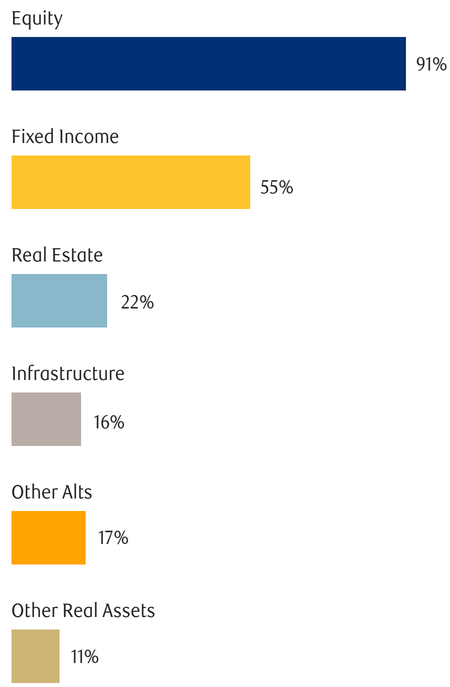
While equities continue to be the most common asset class for incorporating ESG principles — by far, in both groups — this trend is even more pronounced among financial advisors.

Fully 91% of financial advisors selected equities as an asset class in which they integrate ESG factors, compared to 80% of all US respondents. That is far higher than fixed income (55% for financial advisors and 54% for all US respondents).

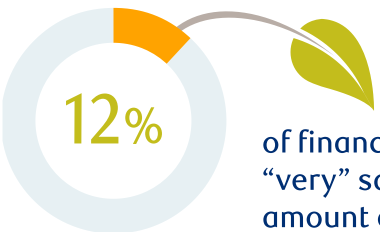
The survey results suggest that institutional investors in the US are deploying ESG in other asset classes at a significantly higher rate than financial advisors: real estate (22% financial advisors vs. 37% all US respondents), infrastructure (16% vs. 26%) and other alternatives (17% vs. 33%), revealing a potential area of opportunity for financial advisors to serve clients' best interests and increasing demand for fully ESG-integrated portfolios.

Exhibit 1: For which asset classes do you incorporate ESG factors into the portfolio management process?

Percent of US financial advisors



Satisfaction with ESG-related disclosures lukewarm



of financial advisors are “very” satisfied with the amount of disclosures.

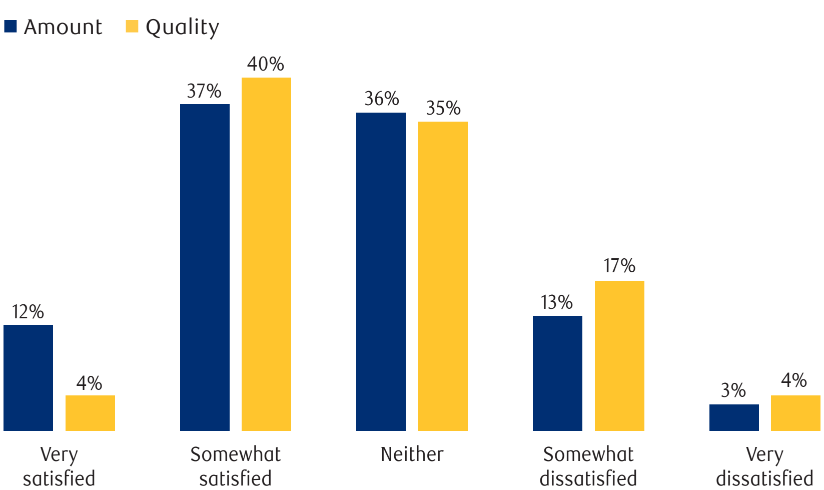
Financial advisors are somewhat more pleased with the amount and quality of ESG-related disclosures provided by issuers. But few respondents in either group are “very” satisfied in either category.

About half of the financial advisors report being “very” or “somewhat” satisfied with the amount (49%) and the quality (44%) of these disclosures, compared to all US respondents (41% and 38%, respectively).

Only 12% of financial advisors and 10% of all US respondents from both groups are “very” satisfied with the amount of disclosures, while a mere 4% of financial advisors and 8% of all US respondents are very satisfied with the quality of these disclosures.

Exhibit 2: How satisfied are you with the current amount and quality of ESG-related disclosure provided by issuers?

Percent of US financial advisors



Anti-corruption and water top list of ESG priorities

We asked respondents to rank 18 individual ESG concerns on a five-point scale (with 5 representing “It will make or break my investment decisions”). Across the board, financial advisors were more concerned about ESG risks than all US respondents as a group.

Both financial advisors and all US respondents rank anti-corruption highest on this scale, with more than half of both groups giving it a 4 or 5 (54% for both groups).

No other factor received a 4 or 5 from at least half of all respondents. Water was close, with 46% of financial advisors giving it a 4 or 5 and 41% of all US respondents.

Other ESG factors near the top of the list for both financial advisors and institutional groups are cyber-security (45% of financial advisors vs. 43% of all respondents), climate change (41% vs. 41%) and shareholder rights/voting (43% vs. 40%).

The ESG factors that were of least concern to financial advisors were social considerations – employee engagement (16%), income inequality (21%), and workplace diversity (25%).

COVID-19 did not have a significant impact on ESG attitudes

Somewhat surprisingly, financial advisors say COVID-19 has not increased the importance they place on ESG considerations by a margin of two to one (55% to 25%), a similar ratio to all US respondents (63% to 25%).

Of those who say COVID-19 did increase the importance of ESG factors in their investments (23% of financial advisors and 23% of all US respondents), climate and supply chain risk rank as the top areas of heightened concern as a result of the pandemic.

Among these "yes" respondents, financial advisors place a greater emphasis on workplace culture — 48% say it is among the top three factors they are focusing on, compared to 35% of all US respondents. Other social factors do not rank as highly among either US group, differing from the broad survey of global institutional investors.

"…financial advisors say COVID-19 has not increased the importance they place on ESG considerations by a margin of two to one…"

Exhibit 3: Has the COVID-19 pandemic made you pay closer attention to any specific ESG factors?

Percent of US financial advisors

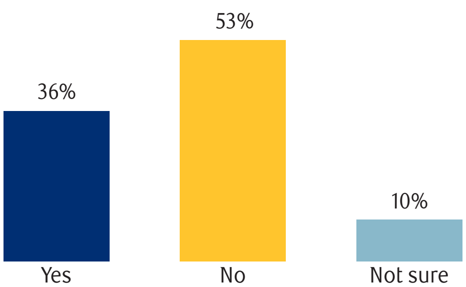


Exhibit 4: If yes, please select the top three factors you are more closely focusing on.

Climate risk	57%
Supply chain risk	52%
Workplace culture	48%
Human capital development	29%
General corporate governance	24%
Resource efficiency	19%
Cybersecurity and data privacy	19%
Reputational risks	14%
Employee benefits	14%
Executive compensation	10%

Methodology

In the summer of 2020, 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 120 respondents from this study worked in “intermediary” businesses in the investment world – for wealth manager or wealth platform companies, registered investment advisors, family offices, or financial planning firms, referred to as financial advisors herein.

The full 2020 RBC Global Asset Management Global Responsible Investment Survey, reflects the views of institutional investors, consultants and financial intermediaries from the US, Canada, Europe, and Asia (mainly Japan). The US accounted for over half (55%) of all responses. In total, the survey reflects responses from 809 survey participants. The findings of this survey may be accepted as accurate, at a 95% confidence level, within a sampling tolerance of approximately +/- 3.4%.

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